

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA

REPORT OF
ASSOCIATION EXAMINATION
OF
MUTUAL SAVINGS LIFE INSURANCE COMPANY
DECATUR, ALABAMA

AS OF
DECEMBER 31, 2004

PARTICIPATION:
SOUTHEASTERN ZONE
ALABAMA

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STATE OF ALABAMA

COUNTY OF MORGAN

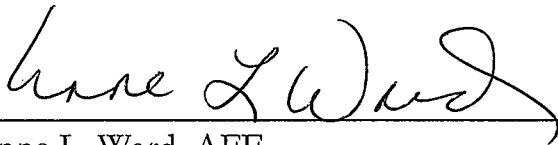
Anne L. Ward, being first duly sworn, upon her oath deposes and says:

THAT she is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

THAT an examination was made of the affairs and financial condition of *MUTUAL SAVINGS LIFE INSURANCE COMPANY*, Decatur, Alabama, for the period of January 1, 2001 through December 31, 2004;

THAT the following 63 pages constitute the report thereon to the Commissioner of Insurance of the State of Alabama;

AND THAT the statements, exhibits and data therein contained are true and correct to the best of her knowledge and belief.



Anne L. Ward, AFE
(Examiner-in-Charge)

Subscribed and sworn to before the undersigned authority this 17th day of March, 2006.



(Signature of Notary Public)



(Print Name)

Notary Public

in and for the State of Alabama

My Commission expires

SUSAN C. BLACKWOOD Notary Public, AL State at Large My Comm. Expires Dec. 06, 2009
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GOVERNOR

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March 17, 2006

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Honorable Walter A. Bell
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Department of Insurance
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Dear Commissioners:

Pursuant to your authorization and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, a full scope financial and market conduct examination as of December 31, 2004, has been made of the affairs and financial condition of

MUTUAL SAVINGS LIFE INSURANCE COMPANY

at its home office located at 2801 Highway 31 South, Decatur, Alabama 35603. The report of examination is submitted herewith.

Where the description "Company" or "MSLIC" appears herein, without qualification, it will be understood to indicate *Mutual Savings Life Insurance Company*.

SCOPE OF EXAMINATION

The Company was last examined for the four-year period ended December 31, 2000, by examiners from Alabama representing the National Association of Insurance Commissioner's (NAIC) Southeastern Zone. The current examination covers the intervening period from the date of the last examination through December 31, 2004, and was conducted by examiners from Alabama representing the NAIC's Southeastern Zone. The examination was conducted concurrently with the examination of Company's wholly-owned subsidiary, Mutual Savings Fire Insurance Company (MSFire), Decatur, Alabama.

The examination was made in accordance with the statutory requirements of the *Alabama Insurance Code* and the Alabama Department of Insurance's (ALDOI) regulations and bulletins; in accordance with the applicable guidelines and procedures promulgated by the NAIC; and in accordance with generally accepted examination standards and practices in connection with the verification of assets and determination of liabilities.

The examination included an inspection of corporate records, test checks of recorded income and disbursement items for selected periods, a general review of records and files pertaining to operations, administrative practices, and compliance with statutes and regulations. Assets were verified and valued and all known liabilities were established or estimated as of December 31, 2004, as shown in the financial statements contained herein. However, the discussion of specific assets or liabilities contained in this report is confined to those items where a change was made by the examiners, or which indicated violation of the *Alabama Insurance Code* and the ALDOI's rules and regulations or other insurance laws or rules, or which were deemed by the examiners to require comments or recommendations.

A Company copy of the filed Annual Statement for the year 2004 was compared with or reconciled to account balances with respect to ledger items.

The market conduct review consisted of a review of the Company's territory; plan of operation; complaint handling; marketing and sales; compliance to agents' licensing requirements; policyholder services; underwriting and rating practices; claim payment practices; and privacy policy and practices.

The Company's accounts were audited by Deloitte & Touche, LLP, Certified Public Accountants (CPAs), for each of the four years under examination. Audit report and workpapers were made available to the examiners and were used where deemed appropriate in the completion of this examination.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attested to having valid title to all assets and to the non-existence of unrecorded liabilities as of December 31, 2004.

ORGANIZATION AND HISTORY

The Company was incorporated on January 8, 1927, under the laws of the State of Alabama governing mutual aid insurance companies. The original Certificate of Incorporation was filed for record in the office of the Judge of Probate of Morgan County, Alabama, on December 28, 1926. The Company commenced business on January 10, 1927, with initial paid up capital of \$6,000.

The purpose of the corporation, as stated in the Certificate of Incorporation, was to do business as a mutual aid, benefit or industrial company or association, with the powers and privileges prescribed by the State of Alabama.

Since the date of organization, various changes in the authorized capital stock of the Company have been approved by the stockholders, as evidenced by amendments to the Certificate of Incorporation. The authorized capital stock at the date of organization, as set forth in the Certificate of Incorporation, was \$20,000, comprised of 200 shares of \$100 par value per share common stock.

On March 11, 1944, the stockholders adopted a resolution amending the Certificate of Incorporation to permit the Company to qualify as a legal reserve life insurance company. On April 1, 1944, the Company began operating as a legal reserve life insurance company with paid up capital of \$100,000.

An amendment of the Certificate of Incorporation was approved by the stockholders on March 4, 1965, which authorized the capital of the Company to be \$3,000,000, comprised of 3,000,000 shares of \$1 par value per share common stocks.

From January 6, 1971, to December 28, 1979, the Company repurchased and retired 857,545 shares of capital stock at an aggregate cost to the Company of \$7,983,465.70, for an average cost per share of \$9.31.

Prior to this examination, the Company had two surplus notes issued to Primesco, Inc., totaling \$10,477,652. The Company issued another surplus note to Primesco on October 30, 2001, for \$27 million. In March 2003, the Executive Committee of the Board of Directors of Primesco took action to cancel the indebtedness owed by the

Company totaling \$37,477,652, and deemed the funds a permanent contribution to the surplus of the Company.

On December 30, 2003, the Company issued a \$7 million surplus note to Primesco in exchange for cash. Principal and interest payments are subject to prior approval by the Alabama Commissioner of Insurance and principal cannot be repaid until surplus levels exceeding \$35 million are met. The rights of Primesco to the principal sum and/or accrued interest thereon are and shall remain subject to and subordinate to all other liabilities of the Company.

The Company's authorized capital has not changed during the four-year period covered by this examination. At the December 31, 2004 examination date, the Company's Annual Statement reflected outstanding capital stock totaling \$2,093,426, consisting of 1,046,713 shares of \$2 par value common stock; \$7,000,000 in *Surplus notes, Gross paid in and contributed surplus* totaling \$37,477,652, and \$(25,148,221) in *Unassigned funds (surplus)*.

On December 31, 1986, the Company purchased Southern United Life Insurance Company (SULIC), Montgomery, Alabama, and its subsidiary, Southern United Fire Insurance Company (SUFI), Montgomery, Alabama, and moved both companies' operations to Decatur, Alabama, in 1987. The Company entered into an Assumption Reinsurance Agreement with SULIC, which was executed on December 31, 1986, and effective on January 1, 1987, whereby the Company assumed all of SULIC's in force ordinary and industrial life and health insurance. SUFI was sold to an unrelated party on December 30, 1992.

Mutual Savings Group, Inc. (MSG), a Delaware corporation, was organized in 1988, with its Certificate of Incorporation filed for record on September 14, 1988. MSG was organized by the Company for the purpose of facilitating a leveraged buy-out (LBO) of control of the Company by the Company's Employee Stock Ownership Plan (ESOP). MSG's initial capitalization in the amount of \$1,261,191 was provided by the Company. In a transaction effective September 30, 1988, the Company contributed 100% of MSG to the ESOP. Prior to the LBO, the ESOP owned 219,191 shares of the Company's stock. On September 30, 1988, the ESOP borrowed \$56,500,000 (referred to as the *ESOP Funding Arrangement* in this report) to purchase 611,472 shares of the Company's stock, and purchased an additional 17,735 shares for cash, giving the ESOP a total of 848,398 shares of the Company's stock. MSG then entered into a five-for-one stock swap with the Company's ESOP, in which MSG gave five newly issued shares of its stock (4,241,990 total shares) in exchange for each share of the Company's stock (848,398 shares) owned by the

ESOP. This transaction was effective on September 30, 1988, and as a result, MSG initially acquired 75.2% of the common stock of the Company, and the ESOP acquired 99.75% of the outstanding common stock of MSG.

As part of a settlement in 1996 of a class-action lawsuit filed in 1984, the Company conveyed equity in the Company to the Plaintiff's (Class Members) amounting to approximately thirty-three percent (33%) of the total equity of the Company. The Court entered an Order approving the Settlement Agreement on February 6, 1997. The Order became final, and the Settlement Agreement became effective on March 21, 1997.

The Settlement Agreement, as approved by the Court, provided for the following:

- a) The issuance by the Company to a Trustee for the benefit of the Beneficiary Class, 141,653 shares of a new, dividend paying, non-voting class of common stock (Class B Stock).
- b) The issuance by the Company to a Trustee for the benefit of the Policyholder Class, 400,000 Warrants to acquire Class A Stock of the Company.
- c) The reformation of all outstanding burial policies to provide that the Company will pay cash, equal to the full face value of said policy, rather than funeral services or merchandise, as provided under the policies.
- d) The release of all claims that were or could have been asserted by or on behalf of any class member against the Company with respect to any Burial Policy.
- e) The payment by the Company of \$2.5 million to the plaintiffs' attorneys for fees and expenses.

The Company retained the services of Willamette Management Associates (WMA), an independent valuation expert, to issue an opinion on the fair value of the Class B common stock and the Warrants. They concluded that the fair value of the Class B common stock was \$3.1 million, and the fair value of the Warrants was \$7.5 million. The Class B stock and Warrants are to remain in trust until 2004, at such time the Class B stock and Warrants will be converted into either Class A stock of the Company or common stock of MSG. The converted stock will then be sold as directed by the Company and the proceeds distributed in cash to the class members.

On December 4, 1998, Primesco acquired through a cash tender offer and merger, 100% of the outstanding common stock of MSG and, by virtue of that transaction and Primesco's related cash tender offer for the Class A common stock (voting) of the Company, Primesco became the owner of approximately 95% of the Class A

common stock of the Company. Primesco's acquisition of MSG and the Company resulted in the termination of the ESOP. As part of the acquisition, Primesco repaid the indebtedness arising from the 1988 LBO of the Company by the ESOP to including \$7,000,000 owed to the Company by the ESOP. In connection with the repayment of the LBO indebtedness, the common stock of MSG and the common stock of the Company pledged to secure such indebtedness was released. MSG merged with and into Primesco, and the separate existence of MSG ceased.

During 1999, management proceeded with its plan for the Company to repurchase the minority interest not owned by Primesco. The repurchase of 43,579 shares of Class A common stock as fractional shares in connection with the reverse stock split of the Class A common stock reduced capital and surplus by approximately \$2.5 million. The Company also redeemed 141,653 shares of Class B common stock, which reduced capital and surplus by approximately \$5.3 million. The Company redeemed a warrant, which reduced capital and surplus by approximately \$5.0 million. These transactions were funded in part, by two surplus notes from Primesco totaling approximately \$10.5 million. The notes pay interest quarterly at annual rates ranging from 7.75% to 8.5% subject to the approval by the Alabama Commissioner of Insurance. Any repayment of principal is subject to approval by the ALDOI and may be paid only out of the Company's earned surplus in excess of \$35 million. As a result of these transactions, Primesco owned 100% of the Class A common stock of the Company (with the Class B common stock and the warrant being retired).

To acquire MSG and the Company, Primesco obtained equity funds of approximately \$11.6 million from investors, exchanged shares of common stock of Primesco for shares of common stock of the Company valued at an aggregate amount of \$5,911,626, and obtained a \$50.8 million line of credit from Colonial Bank, all of which was outstanding at December 31, 2000. The loan from Colonial Bank is amortized over a period of 15 years (with a balloon payment at the end of five years), and is secured by all of the outstanding capital stock of the Company owned by Primesco. A separate loan for \$6.0 million was due in one installment on January 1, 2001, and was subsequently extended to January 1, 2002, with interest due July 1, 2001, and at maturity.

The surplus notes were amended in 2001 to provide that the repayment of principal will be made only if the Company's earned surplus exceeds \$55 million. Also, the loan agreement with Colonial Bank was renegotiated in October 2001. The loan continues to amortize over a period of fifteen years, with the balloon payment now due on December 31, 2006. All outstanding loans were consolidated into one loan of \$75 million, and Primesco obtained an additional line of credit pursuant to a revolving credit agreement of \$10 million from Colonial Bank.

On December 23, 2003, Colonial Bank increased the amount that could be drawn under the revolving credit loan to \$17 million. The Company and Primesco requested that Colonial Bank issue an irrevocable standby letter of credit (LOC) to Liberty Mutual Insurance Company, whereby the LOC was secured by a Pledge Agreement. The revolving credit loan is now set to mature on November 10, 2005. Subsequent to the examination period, a fourth amendatory agreement was executed, whereby the Primesco's debt was restructured into two loans. See the SUBSEQUENT EVENTS section on page 61 of this examination report for a detailed discussion on this matter.

On October 30, 2001, the Company acquired a block of policies from Atlanta Life Insurance Company (Atlanta Life) through a coinsurance/assumption agreement (Agreement). The service agreement portion of the Agreement required the Company to provide all servicing for policies transferred to the Company. The financial aspects of the transaction transferred approximately \$121 million in policy reserves and other liabilities along with approximately \$95.3 million in assets with the difference of \$25.7 million being a ceding fee to Atlanta Life. The ceding fee was a direct charge to operations in the last quarter 2001. The acquisition was funded by the Company's issuance of a surplus note to Primesco (the Company's parent) for \$27 million in cash.

On December 7, 2001, the Company closed on an *Assumption Reinsurance Agreement* with Spry Life & Accident Insurance Company, Inc. (Spry) where the Company bulk reinsured and permanently assumed all of the policies of Spry. There were approximately 28,000 paid up policies with approximately \$2.7 million in policy liabilities being assumed. Cash was transferred to cover all policy liabilities, less approximately \$268,000, which was a ceding fee paid to acquire the policies.

MANAGEMENT AND CONTROL

The Company's By-Laws, as amended, provide that the business and affairs of the Company shall be managed by the Board of Directors, subject to limitations imposed by law, the Articles of Incorporation or the By-Laws, as to actions that require authorization or approval by the shareholders. The number of directors was fixed by resolution of the Board of Directors at not less than three, one-third of which shall be bona fide residents of the State of Alabama. Officers of the Company are elected by the newly elected Board of Directors, at a meeting held immediately after the annual meeting of the Stockholder.

Stockholders

At December 31, 2004, the Company was 100% owned by Primesco, Inc., a Delaware corporation, which held 1,046,713 shares of the 3,000,000 authorized shares of \$2 par value common stock. See the ORGANIZATION AND HISTORY section of this report for a more detailed discussion.

Board of Directors

The number of directors to serve for the year 2004 was set at five by the sole stockholder. Members elected to the Board of Directors by the stockholder and serving at December 31, 2004, were as follows:

<u>Director/Address</u>	<u>Principal Occupation</u>
Charles Larimore Whitaker Birmingham, Alabama	Chairman, President, CEO Mutual Savings Life Insurance Company
Walter Jones Hughes Birmingham, Alabama	Executive Vice President, COO Mutual Savings Life Insurance Company
Melvin Robert Hutson Greenville, South Carolina	Attorney Self-employed
Christopher Harwood Bernard Mills London, England	Chief Investment Officer J.O. Hambro Capital Management Limited
Francis Williams Thomas, Jr. Moody, Alabama	Investment Banker, Semi-retired Raymond James Financial Services, Inc.

Officers

The following officers were elected or re-elected to their respective positions on July 13, 2004, and were serving at the examination date:

<u>Officer</u>	<u>Title</u>
Charles Larimore Whitaker	Chairman of the Board, President and Chief Executive Officer
Walter Jones Hughes	Executive Vice President-Marketing, Chief Operating Officer and Assistant Secretary

Ronald John Koch	Senior Vice President, Treasurer and Chief Financial Officer
Glenn Alan Lansdell	Senior Vice President, General Counsel and Assistant Secretary
Don Francis Morrison	Senior Vice President-Operations and Secretary
George Arthur Armor	Regional Vice President
Larry Joe Burton	Regional Vice President
Woodie Lee Melton	Regional Vice President
Bobby Jefferson Outlaw	Regional Vice President
Susan Adams Burns	Vice President and Assistant Treasurer
Joseph Calvin Chapman	Vice President
Robert Elerby Colburn	Vice President
Judy Oakley Hagen	Vice President
Kenneth O'Neal Jordan	Vice President
Bruce Howard Lea	Vice President
James Richard Lown	Vice President
David Anthony Lynn	Vice President
Joe Michael Moore	Vice President
Stephen Richard O'Shea	Vice President
David Carr Weatherford	Vice President
Clark Larimore Whitaker	Vice President
Murry Joe Woodard	Vice President
Roderick LaBron Davis	Assistant Vice President
Frankie Drinnen Graves	Assistant Vice President
Deborah Marie Holmes	Assistant Vice President
Brenda Ballew McMinemon	Assistant Vice President
Roger Don Schaffer	Assistant Vice President
Wanda Downs Smith	Assistant Vice President
James Harlan Wallace, Jr.	Assistant Vice President
Mary Sandusky White	Assistant Vice President
Thomas Russell White	Assistant Vice President
Sandra Vest Roden	Assistant Secretary
Dr. Roger Henry Moss, Jr.	Medical Director

Committees

Executive Committee

On December 15, 1998, the Company's Board of Directors established an Executive Committee, to consist of three members. The following members of the Board of Directors were elected to the Executive Committee in 2004:

- Walter Jones Hughes
- Francis Williams Thomas, Jr.
- Charles Larimore Whitaker

Conflict of Interest

The Company adopted a conflict of interest policy in 1984, and requires a conflict of interest statement to be completed annually by all directors and officers. The purpose of the statement is to disclose conflicts between the Company's interest and the interests of its directors and officers. A review of the statements signed during the examination period indicated that no material conflicts had been reported.

CORPORATE RECORDS

The Articles of Incorporation and By-Laws and amendments thereto were inspected during the course of the examination and appeared to provide for the operation of the Company in accordance with usual corporate practice and applicable statutes and regulations. There were no amendments during the four-year examination period.

Minutes of the meetings of the stockholder and Board of Directors were reviewed for the period under examination. The minutes appeared to be complete with regard to actions taken on matters before the respective bodies for deliberation and action, except as noted otherwise in this report.

HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company Registration

The Company is deemed to be subject to the *Alabama Insurance Holding Company System Regulatory Act* as defined in ALA. CODE § 27-29-1 (1975). In connection therewith, the Company is registered with the Alabama Department of Insurance as joint registrant with Mutual Savings Fire Insurance Company of an Insurance Holding Company System.

Appropriate filings required under the Holding Company Act are made from time to time by the Company as joint registrant. A review of the Company's filings during the period under review indicated that all required disclosures were included in the Company's filings during the examination period.

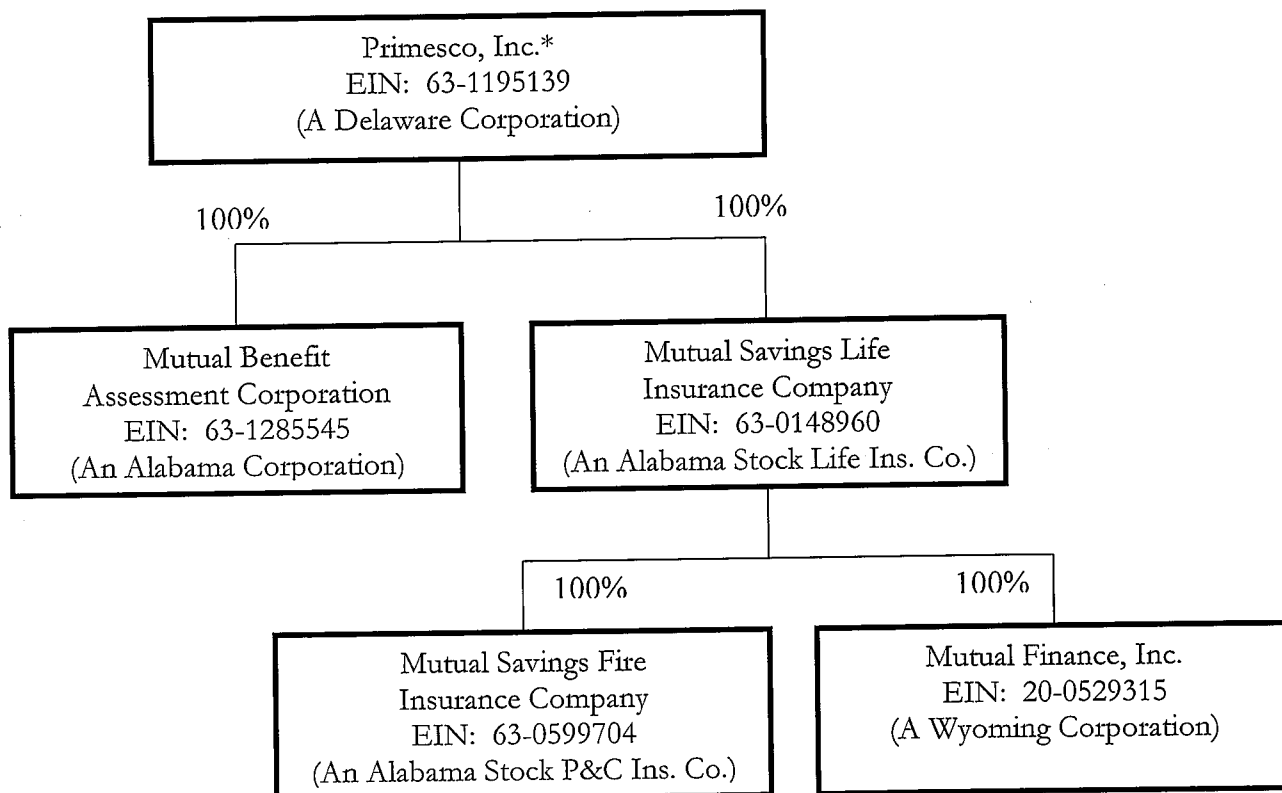
Dividends to Stockholders

The following dividends to stockholders were paid during the current examination period:

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
\$6,133,738	\$7,007,295	\$8,038,756	\$7,463,064

Organizational Chart

The following organizational chart depicts the insurance holding company system with which the Company was affiliated as of December 31, 2004.



*Primesco, Inc. shareholders with greater than 10% (assuming exercise of all options) are: C. Larimore Whitaker 14.47% (32.12% including relatives and family) and separate affiliates of J.O. Hambro Capital Management (through various funds and nominees) own 25.21%.

Transactions and Agreements with Affiliates

Agreement to Allocate Consolidated Federal Income Tax

A tax allocation agreement was entered into by Primesco, Inc. and its affiliates: Mutual Savings Life Insurance Company, Mutual Savings Fire Insurance Company, Mutual Benefit Assessment Corporation and Mutual Finance, Inc., on September 28, 2004. This agreement states that federal income taxes owed by the companies, as a group shall be allocated to each company in the direct proportion that the taxable income of each company bears to the total taxable income of all the companies.

Management Services Agreement between Mutual Savings Life Insurance Company and Mutual Savings Fire Insurance Company

A *Management Services Agreement* was made and entered into on October 21, 2002, by and between the Company and Mutual Saving Fire Insurance Company (MSFire). This is a revised agreement that was originally entered into on January 2, 1974. The previous examination report recommended that the agreement be updated and submitted to the Alabama Department of Insurance for approval.

Under the terms of this agreement, the Company agrees to be a representative of MSFire for marketing, underwriting and servicing of its business. All employees and licensed field personnel were provided by and were employees of the Company. MSFire agreed to pay all expenses that could be identified as its direct expenses and for services necessary for the proper operation and administration of MSFire.

On December 17, 2002, the Commissioner granted approval to the revised version of the agreement with the understanding that any changes to the reimbursement rate established in Section 5 constitute a material change in the agreement and as such requires a Form D filing in compliance with ALA. CODE § 27-29-5 (1975).

The Company collects premiums for MSFire under this management and services agreement. MSFire premiums are deposited into the Company's bank account. The Company writes a check to MSFire monthly for premiums collected throughout the month. ALA. CODE § 27-27-26 (1975), states, in part, that "any employee of a domestic insurer who is charged with the duty of...handling the insurer's funds shall not deposit...such funds except in the insurer's corporate name." The agreement stipulates:

"2. Mutual Life agrees to provide Mutual Fire with competent, trained and licensed field personnel ("Agents") for the sale to the public of fire insurance policies and the

servicing of such policies, including the collection of periodic insurance premiums, as may be issued by Mutual Fire. In performing such services, it is understood and agreed that all Agents shall be employees of Mutual Life and not employees of Mutual Fire.

3. Mutual Life agrees to remit, within thirty (30) days of the end of each month, all premiums collected by its Agents on such fire insurance policies to Mutual Fire."

As noted above, this *Management Services Agreement* was approved by the Alabama Department of Insurance on December 17, 2002.

Management Services Agreement between Primesco, Inc., Mutual Savings Life Insurance Company and Mutual Savings Fire Insurance Company

A *Management Services Agreement* was made and entered into on October 19, 1999, by and between Primesco, Inc. (Primesco), a Delaware corporation, the Company and Mutual Savings Fire Insurance Company (MSFire). This agreement was approved by the Alabama Department of Insurance on December 17, 2002.

Under this agreement, the Company pays the salaries of all officers and employees of the entire holding company group. In addition to the salaries, the Company pays a 15% "fee" to the parent company (15% of the salaries of all employees in the Holding Company). It was noted in the previous examination that the Company did not provide supporting evidence from cost analysis or time studies that the fees were fair and reasonable. In addition to the 15% fee, the Company pays a 0.4% fee (0.4% of the fair market value of the average assets of the Company) for "advice regarding investment portfolio and advice regarding the 401(k) accounts for employees."

The contract required that Primesco submit invoices monthly to the Company, describing in reasonable detail the services provided, the charges related thereto and other direct expenses to be reimbursed. Furthermore, it states that the Company must remit payment, within thirty days of receipt of the invoice, to Primesco. In addition, the agreement provided that Primesco may waive any part or all of the fees payable to it under this agreement. It was noted in the agreement and also in the prior examination report that Primesco was to provide written support for the waiver of the fees. During this examination period, Primesco waived part of the fees payable under this agreement without providing a written waiver.

FIDELITY BONDS AND OTHER INSURANCE

Fidelity Coverage

During the examination period, the Company did not carry fidelity bond coverage for protection against dishonest or fraudulent acts committed by employees. The previous two examinations have recommended that the Company obtain at least minimum coverage. Management's response to the fidelity bond recommendation was that:

"Mutual Savings has made the business decision that, given the large number of agents and managers it employs, the purchase of a fidelity bond (or similar coverage), would not be cost effective and that it would be better for Mutual Savings to self insure against such risk. Management has taken the examination recommendation under advisement and may secure future quotes to determine if its policy of self insuring is still cost effective."

"Management firmly believes this is truly a management decision based on cost versus benefits. Based on verbal premium quotes to provide this coverage, which the company has received in the past, management does not believe this coverage is economically worth the cost for the coverage which would be provided. We do not deny that this decision contains some risk, but in the almost 78 years MSLIC has been in business, it has not had any fidelity coverage of this magnitude and there are significantly larger risks such as litigation risks that are not insured."

A senior vice president stated that the Company has not established self insurance reserves as "a liability has not been incurred as of the date of the financial statement." Management also indicated that "MSLIC has tried to obtain quotes and has been turned down for this type of coverage, due to the number of agents and district locations making collections."

According to the NAIC's Financial Condition Examiners Handbook, the minimum amount of suggested coverage should be between \$1,000,000 and \$1,250,000.

Other Insurance

At December 31, 2004, the Company maintained the following coverages:

- fiduciary liability;
- workers' compensation and employers' liability;
- directors and officers liability; and
- commercial umbrella liability.

The coverages and limits carried by the Company were reviewed during the course of the examination and appeared to adequately protect the Company's interests.

During the review of the Company's investments, it was noted that a director, who is not an officer or employee of the Company, has the authority to transfer the Company's securities. This director is an investment consultant contracted by the Company and receives consulting fees in addition to directors' fees. The examiners find this arrangement to be very unusual in that while his expertise may be valuable to the Company in his role as a director, he appears to be exceeding this role by having the ability to transfer Company assets. This could also become an issue if the Company did obtain fidelity bond coverage as, under normal circumstances, only the officers and employees are covered under such a policy.

ALA. CODE § 27-27-26(a) (1975) states that:

"Any officer, or director, or any member of any committee or any employee of a domestic insurer who is charged with the duty of investing or handling the insurer's funds...shall not be pecuniarily interested in any loan, pledge or deposit, security, investment, sale, purchase, exchange, reinsurance or other similar transaction or property of such insurer...and shall not take or receive to his own use any fee, brokerage, commission, gift or other consideration for, or on account of any such transaction made by, or on behalf of, such insurer."

The director oversees the duty of investing the Company's funds, and although he may not receive transaction fees on the investments he recommends, he does receive compensation for his consulting work on security investments made on behalf of the Company, which is in violation of the aforementioned ALA. CODE § 27-27-26(a) (1975). In addition, no evidence was provided that any director is authorized this kind of power by the Articles of Incorporation and/or By-Laws. The minutes of the Board of Directors meetings did not contain corporate resolutions evidencing authorizations that allow directors to perform these services or corroborate access to the various active bank accounts.

Subsequent to the examination period, management sent written notification to the Trust Officer of the financial institution holding the Company's custodial accounts, whereby the director's authority regarding transfers of securities and/or monies into or from the Company's custodial accounts was removed.

EMPLOYEE AND AGENTS WELFARE

Employee benefits included the following: group health, dental, vision and life insurance, short and long term disability insurance, educational incentives, 401(k)

retirement plan, service awards, and paid leave, including vacation, sick, jury duty, and bereavement.

The Company is required to comply with the Violent Crime Control and Law Enforcement Act of 1994, US Code, Title 18, Section 1033 (e)(1)(A), which in part, prohibits individuals who have been convicted of specified criminal activity from engaging in the business of insurance without written consent from the Commissioner of Insurance. Background checks are performed on all prospective employees to ensure compliance with this act. However, the Company does not have a formal policy for monitoring all current employees to ensure that they are in compliance. ALA. ADMIN. CODE 482-1-121 (2003), Guideline 1, states that "failure to initiate a screening process in an attempt to identify prohibited persons in current or prospective employment relationships may be a factor in determining if a violation of this statute has occurred."

In order to qualify for annual license renewal, the Company field force is required to complete a question on the Alabama Department of Insurance's *Producer License Renewal Form*, which asks "Have you EVER been charged with or convicted of a felony or misdemeanor?" Effective January 1, 2006, management implemented a program to obtain similar certification from its home office employees.

SPECIAL DEPOSITS

In order to comply with the statutory requirements for doing business in the various jurisdictions in which it was licensed, the Company had the following securities on deposit with state authorities at the December 31, 2004 examination date:

<u>State</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Fair Value</u>
Alabama	\$ <u>300,000</u>	\$ <u>299,407</u>	\$ <u>315,879</u>
Florida	\$ <u>1,000,000</u>	\$ <u>965,656</u>	\$ <u>1,104,400</u>
Georgia	\$ <u>100,000</u>	\$ <u>100,000</u>	\$ <u>100,000</u>
Totals	\$ <u>1,400,000</u>	\$ <u>1,365,063</u>	\$ <u>1,520,279</u>

Confirmation of these deposits was obtained directly from the respective custodians.

FINANCIAL CONDITION/GROWTH OF THE COMPANY

	Admitted			Premiums
	Assets	Liabilities	Surplus	Earned
2004*	\$ 417,923,356	\$ 396,500,499	\$ 19,329,431	\$ 53,917,450
2003	424,810,165	393,606,496	29,110,243	54,325,183
2002	417,272,255	392,372,413	22,806,416	55,567,805
2001	415,076,638	391,914,027	21,069,185	47,872,262
2000*	288,871,284	272,425,619	14,352,239	44,772,523

*Per Examination

MARKET CONDUCT ACTIVITIES

Territory

The Company was licensed to transact business in the following states at December 31, 2004:

Alabama	Georgia	Louisiana	Tennessee
Florida	Indiana	Mississippi	

The Certificates of Authority from the respective states for the four-year period covered by this examination were inspected and appeared to be in order.

There were no pending applications at December 31, 2004.

Plan of Operation

At December 31, 2004, the Company marketed its products through a Home Service distribution system. The Company's sales organization consisted of an agency sales and service field force, which is responsible for the marketing and servicing of its various lines of insurance products. The agents are career agents and classified as employees of the Company. Approximately 74% of the premium is home service collected, whereby agents collect premiums and remit them to the home office; the remaining 26% is paid by bank draft or premium billing. The Company currently has 16 District Offices, 64 Staff, and 330 Agencies, and a total field force of 416 representatives. The field management and agents are compensated by a service commission, based on newly produced business and retention. The sales commission varies according to the policy written.

The Company markets to the lower and middle income, generally referred to as the "under-served market."

The Company writes whole life and term insurance with small amount of fixed benefit/limited liability type accident and health policies.

Currently, the Company's products are approximately 80-85% whole life and 15-20% term insurance. The Company does not write any interest sensitive or universal life type contracts.

The Company currently is involved in a major re-engineering project for its field force that is designed to produce both revenue enhancement and cost reduction through larger agencies, staffs, and districts; lower agent turnover; more quality production; improved persistency; and more qualified agency force.

Marketing and Sales

The Company's Marketing Department consists of four Vice Presidents that report to the Marketing Director. Each Vice President is in charge of a specific area of marketing. The Vice President of Agency is primarily responsible for all materials that are provided to the agency force on behalf of the Company.

The Company did not have a formal advertising program as of December 31, 2004. During the examination period, the Company's advertising was limited to printed sales brochures provided to its agency force and a website that is accessible by the public. A review of the provided advertising materials found them factual and not misleading.

The Company's producer training materials consisted of a training manual, a series of videos and a brochure. The review of these items determined that the producer training materials did not promote any unfair discrimination practices or reference any attempts to avoid statutory compliance.

Advertising Certificate of Compliance

During the examination period, the Company did not file an annual Certificate of Compliance for advertising in accordance with Alabama Department of Insurance *Regulation No. 69*, Section VII. (2), which required:

"Each insurer subject to the provisions of this Regulation shall file with this Department with its Annual Statement a certificate of compliance executed by an

authorized officer of the insurer wherein it is stated that to the best of his or her knowledge, information, and belief the advertisements were disseminated by or on behalf of the insurer in this State during the preceding statement year, or during the portion of such year when this Regulation was in effect, complied or were made to comply in all respects with the provisions of this Regulation and the Insurance Laws of Alabama as implemented and interpreted by this Regulation.”

This regulation was repealed on January 1, 2005, and replaced with ALA. ADMIN. CODE 482-1-132-10(3) (2005) that requires:

“Each insurer subject to the provisions of this chapter shall file with the commissioner with its annual statement a certificate of compliance executed by an authorized officer of the insurer stating that to the best of his or her knowledge, information and belief the advertisements that were disseminated by or on behalf of the insurer in this state during the preceding statement year, or during the portion of the year when these rules were in effect, complied or were made to comply in all respects with the provisions of these rules and the insurance laws of this state as implemented and interpreted by this chapter.”

Electronic communications between Company and producer

During the examination period, communications between the producers and the Company consisted primarily of bulletins and memorandums. The Company periodically uses an internal mail system to communicate with its agency force; however, the Company could not provide any saved, stored or archived electronic-mail that was broadcast to the sales force. Therefore, the Company is not in compliance with ALA. CODE § 27-27-29(a) (1975) that states:

“Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.”

The examiners were unable to determine if the Company’s communications to producers are in compliance with MARKETING & SALES Standard 1, of the NAIC’s Market Conduct Examiners Handbook due to the fact that the Company does not save any electronic communications to its producers. The Company should develop a policy in order to archive or store communications with its producers.

Compliance with Agents' Licensing Requirements

Producer Licensing

An inspection of Company records was conducted by the examiners to determine that producers representing the Company in Alabama were appropriately appointed. A register of licensed agents was obtained from the Agents' Licensing Division of the Alabama Department of Insurance and compared to a current list of agents provided by the Company.

At December 31, 2004, the Company used captive producers and agencies to sell its products. Only appointed and licensed producers were used to sell its policies in the Southeastern United States where it was licensed to conduct business. The total number of producers appointed at the examination date was 416.

A sample of commission payments was reviewed to insure that producers receiving commissions were licensed. No exceptions concerning producer's appointment and licensure requirements of the State of Alabama were noted within the sampled items.

Individual terminated producer files were reviewed to determine if the Company maintains the reason of termination. Selected terminated producer's files contained documentation of the reason for termination and the notice that was mailed to the Alabama Department of Insurance in accordance with ALA. ADMIN. CODE 482-1-109.05(2) (2002), which requires insurers to submit a notice of termination for all producer and service representative appointments.

The Company provided two separate files: appointed agent's file and terminated agent's files. The Company's terminated agent listing showed the date the agent was terminated. The appointed agent's listings did not show dates of appointments.

PRODUCER LICENSING Standard 1, of the NAIC's Market Conduct Examiners Handbook requires that Company records of licensed and appointed (if applicable) producers agree with department of insurance records.

ALA. CODE § 27-27-29(a) (1975), requires that:

"Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

Underwriting and Rating Practices

Through its agency field force, the Company offers various traditional life and term insurance plans on a non-participating basis. The Company does not issue any participating policies, although certain participating business has been obtained through acquisitions of business from other companies. The Company issues policies on standard and sub-standard risks, with the sub-standard rates ranging from Table B and beyond including all reasonable risks. Life contracts offered by the Company include whole life, limited payment life, and joint life plans. Term insurance is offered on a level, decreasing and increasing term basis. Policy forms used by the Company field force were submitted for approval in each respective state.

The maximum amount of insurance retained by the Company on any one life is determined by the age and health of the applicant. The retention limit of the Company is no more than \$50,000 on any one policy.

The minimum whole life policy issued by the Company at December 31, 2004, was \$2,500.

The Company also offers a general accident death benefit policy, a hospital accident indemnity policy, a first occurrence cancer policy and an intensive care daily indemnity policy.

Treatment of Policyholders and Other Claimants

Complaint Handling Practices

The Company recorded complaints that were reported to the various departments of insurance in states where the Company was licensed to write business and complaints that were reported directly to the Company. A total of 63 complaints were received during the examination period. The examiners selected 50 of these complaints for review. The review of the Company's complaints documentation indicated the following:

- The Company provided the examiners with conflicting sets of complaints procedures. Management apologized for the appearance that there were conflicting sets of complaint resolution procedures and indicated that two sets of procedures were sequential, not concurrent.
- The Company was unable to provide 17 of the total 50 complaints that were listed on the Company's complaint register.

- Of the 50 complaints reviewed, the examiner determined that the response time to the Complainant exceeded ten days for three of the complaints.
- The Company did not identify which complaints were consumer direct complaints and department of insurance complaints on the complaint register.

COMPLAINT HANDLING Standard 2, of the NAIC's Market Conduct Examiners Handbook requires the Company to have adequate complaint handling procedures in place and communicate such procedure to policyholders.

COMPLAINT HANDLING Standard 4, of the NAIC's Market Conduct Examiners Handbook, requires insurers to respond to complaints in accordance with applicable, statutes, rules and regulations.

ALA. CODE § 27-27-29(a) (1975) requires that: "Every domestic insurer shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

Section 6, of Alabama Department of Insurance *Regulation No. 118*, states that "The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner."

ALDOI Bulletin, June 18, 1990, states: "This bulletin shall serve as notice that complaints and inquiries from the Department of Insurance to insurance companies shall be answered within ten (10) business days after receipt thereof."

Policyholder Service

In order to review the Company's policy issuance and reinstatement practices, cancellations and nonforfeiture transactions, the examiner selected samples of reinstatements, policy cancellation and nonforfeiture transactions. The samples were used to review timeliness of policy issuance, reinstatement, cancellation and nonforfeiture transactions. The samples were also used to review the policies for compliance with policy provisions and file documentation.

Timely cancellations

Mike Moore, ASA, MAAA, Vice President and Actuary, indicated that the Company generates a list of policies that balances to the 7,070 total on page 26, line 15, column 1, of the 2004 Annual Statement, but generates the other items on the policy exhibit and uses the lapses to balance to the beginning and ending policy counts.

A dataset was provided, but it did not reconcile to the Company's 2004 Annual Statement. The dataset did not include all requested fields and had missing data in some of the records. The dataset that was provided included policy number, plan code, name of insured, due date, and date of transaction, and was less than two thousand records. The examiners were unable to determine if the insured requested cancellations were timely without excessive amounts of paperwork because the dataset provided did not reconcile to the Company's reported 7,070 policies, and the examiners were not able to perform tests on the data or select a sample due to the missing data and fields.

The examiners determined that the Company was not in compliance with ALA. CODE § 27-27-29(a) (1975), which requires that: "Every domestic insurer shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

In addition, POLICYHOLDER SERVICE Standard 2, of the NAIC's Market Conduct Examiners Handbook requires that "Policy issuance and insured requested cancellations are timely."

Surrender Transactions

Mr. Moore stated that, "Line 14 of the Exhibit of Life Insurance lists policies that have surrendered for cash value. We are providing an electronic listing of these policies. The number of policies will not match the numbers on line 14. This is because, during 2004, a number of Atlanta Life policies were found to be no longer in benefit. Some of these were coded as Cash Surrenders, even though they had surrendered long before 2004. At year end 2004, we estimated the number of policies that were of this type and adjusted the policy exhibit by moving these policies to "Decreased (net)." We have tried to remove these policies from the listing we are providing for you, though the number of policies will not match our estimate. The policies will not match our estimate. The policies on the electronic listing should be the actual cash surrenders for 2004."

A dataset was provided, but it did not reconcile to the Company's 2004 Annual Statement. The dataset did not include all requested fields and had missing data in some of the records. The dataset that was provided included policy number, and two date fields. The dataset provided did not reconcile to the Company's reported surrender policies, and the examiners were not able to perform tests on the data or select a sample due to the missing data and fields.

The examiners determined that the Company was not in compliance with ALA. CODE § 27-27-29(a) (1975), which requires that: "Every domestic insurer shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

Claims Payment Practices

Samples of paid, open, closed, and closed-without-payment claims files from 2004, were reviewed in order to evaluate the Company's compliance with policy provisions, timeliness of payment, adequacy of documentation, and reserving. In accordance with the sample methods in the NAIC's Market Conduct Examiners Handbook, sample sizes were limited to 50 and 100 items, contingent on the population of specific files (life paid claims, accident and health paid claims, closed-without-payment claims, and resisted claims). No problems were noted concerning the sampled items. Initial contact procedures, handling and settlement of claims, and reserving methodologies appear to be in accordance with NAIC Claim Standards, as defined by the Market Conduct Examiners Handbook, policy provisions, and statutory requirements.

Privacy Policies and Practices

[Compliance with ALA. ADMIN. CODE 482-1-122 (2001), formerly known as Alabama Department of Insurance *Regulation No. 122*.]

This Regulation governs the treatment of nonpublic personal financial information about individuals by all licensees of the Alabama Department of Insurance. This Regulation requires a licensee to provide notice to individuals about its privacy policies and practices; describes the conditions under which a licensee may disclose nonpublic personal financial information about individuals to affiliates and nonaffiliated parties; and provides methods for individuals to prevent a licensee from disclosing that information.

The Company's *Notice of Privacy Practices*, which was first sent as a mass mailing to all Company policyholders on June 5, 2001, was reviewed for compliance to ALA. ADMIN. CODE 482-1-122 (2001), the *Privacy of Nonpublic Personal Financial Information* regulation. The Company sends the notice to new business policyholders, when a policy is rewritten or renewed, and annually thereafter. The Company provided notices to its customers that indicated the types of information collected, the way it is used and the manner of collection. The notice also informed the customer that the Company may disclose information to affiliated and nonaffiliated third parties.

The privacy form contained a *Notice of Privacy Practices*, which emphasized and explained the Company's policies. These principles appeared to follow the guidelines established in ALA. ADMIN. CODE 482-1-122-.07 (2001) concerning the information to be included in privacy notices.

The Company does not share customer and/or consumer personal information with any nonaffiliated third parties except those permitted under Section 14, 15 and 16 of the ALA. ADMIN. CODE 482-1-122 (2001), which define exceptions to limits on disclosures. Access to nonpublic personal information is restricted when the insured chooses to opt out. The Company had controls and guidelines in place for employees and producers on how to handle any consumer's nonpublic personal financial, health or medical information.

REINSURANCE

Reinsurance Assumed

The Company's assumed reinsurance consists entirely of a block of policies under a 100% coinsurance/assumption agreement with Atlanta Life Insurance Company, effective in 2001. This agreement contributed \$396,174,228 to the Company's December 31, 2004 income. In February 2002, the Company acquired all of the fully paid policies of Spry Life and Accident Insurance Co. Inc., a Rogersville, Alabama based company, through an assumption agreement approved by the Alabama Department of Insurance. The activity on these policies is included as direct business in the Annual Statement.

Reinsurance Ceded

The Company ceded reinsurance to two reinsurers, licensed in Alabama, under life reinsurance agreements and contracts with total reserve credits taken of \$5,640,030 for life business and \$209,827 in A&H business, as reflected in *Schedule S* of its 2004 Annual Statement. The total reserve credit taken on life business was approximately

1.5% of total life reserves. The total reserve credit taken on A&H business represented 1.6% of total A&H reserves. All contracts involving material reserve credits at December 31, 2004 were reviewed.

The material reserve credits were related to three contracts with Optimum Re Insurance Company (Opt Re). Two of these contracts were Automatic Coinsurance Agreements and the other was an Automatic Bulk Accidental Death Benefit Agreement.

Automatic Coinsurance Agreements

Automatic Coinsurance Agreement Number 798-97AC17 was effective August 1, 1997. This agreement covers Life and the Accelerated Living Benefit Rider. Automatic Coinsurance Agreement Number 798-00AC14 was effective July 1, 2000. This agreement covers Life policies. For each of these agreements, the Company's retention limit is 50% up to \$50,000. Opt Re will automatically reinsure amounts up to \$250,000 per life.

Automatic Bulk Accidental Death Benefit

This agreement was effective April 16, 1998, and covers individual and joint accidental death benefit riders. Under this agreement with Opt Re, the Company has no retention. Opt Re's maximum amount reinsured per life is \$300,000, with a minimum reinsurance amount of \$1,001 per policy.

ACCOUNTS AND RECORDS

The Company's principal accounting records were maintained by data processing equipment, a System 390 mainframe, which includes insurance administration, claims and general ledger software. In addition, all of the Company's policy folders and policyholder information was imaged and available for inquiry on the Company's system. The general ledger was supported by subsidiary ledgers and other auxiliary records, some of which were kept manually.

The Company's accounting records were maintained principally on a cash basis, except at the Annual Statement date when they were adjusted to an accrual basis.

The Company was audited annually by the independent certified public accounting (CPA) firm of Deloitte and Touche, LLP, Birmingham, Alabama, which conducted all of the Company's audits for the four-year period covered by this examination. The

audit workpapers of the opening CPA firm were made available for review and were tested and utilized in this examination where deemed appropriate.

Mr. Joe Michael Moore, ASA, MAAA, Vice President and Actuary, provided the statement of actuarial opinion during the examination period.

In general, the accounting records appeared to reflect the operations during the period under review and the condition of the Company at the date of examination, unless otherwise commented upon under appropriate captions elsewhere in this report.

The Company's records indicated that there is no formal control that ensures that the underlying causes of operational failures are identified and addressed. COMPANY OPERATIONS/MANAGEMENT Standard 2, of the NAIC's Market Conduct Examiners Handbook requires that the Company has appropriate controls, safeguards and procedures for protecting the integrity of computer information.

Company management stated that "a failure log for hardware and program application job failures is maintained" and provided a sample copy of its Hardware Service log. These logs have not been maintained in their entirety or for any specific amount of time. ALA. CODE § 27-27-29(a) (1975), requires the Company to maintain complete and accurate documentation of its transactions, and Alabama Department of Insurance *Regulation No. 118*, requires records to be maintained at least five years.

The following Information Systems deficiencies were noted during the review of the Information Systems Questionnaire.

Management Control

As of year-end 2004, the Company has no formal strategic plan for the business and information systems. Management stated that "there have been significant changes in various aspects of the business and information systems area including computer hardware, software, memory, and applications. These changes do not occur without planning and constant assessment of future needs. What we don't do a good job of is formalizing and documenting the various meetings and planning sessions that do occur and the thought process that are involved in this constant assessment."

Operations

A review of the Company's operations indicated the following:

- There is no control that ensures that the underlying causes of operational failures are identified and addressed. As noted previously, the failure log is maintained but not for an extended amount of time. Management indicated that henceforth, the "log will be maintained for a period of 5 years as recommended..."
- There is no control that ensures the effective administration of databases. Management stated that "data file changes are documented as application programs are changed" and "there are back up procedures for data files and in certain instances these have been retrieved and used to restore information. Technically speaking MSLIC has no true relational databases. What MSLIC has are data files that can be processed randomly or sequentially."
- IS management does not provide a periodic maintenance schedule for changes to computer systems and infrastructure as well as a mechanism by which the ramifications of these changes can be considered by all impacted groups. According to Management, "MSLIC does not maintain a formalized documented maintenance schedule because the mainframe computer is maintained in real time." Apparently, IBM monitors the process, and if a problem is detected, they call or provide assistance to address the issue; consequently, the Company states that "a formal documented maintenance system is not necessary; however, we could do a better job of documenting when major changes are made and maintain this documentation for a longer period of time."
- System patches are not monitored to ensure that all systems are updated in a timely manner. Management indicated that "system updates are infrequent but are documented and communicated to the users it impacts. In many instances, these type changes are transparent to the users but may be visible in areas such as response time. We could improve on documenting the few times this does occur and document if certain updates provided by IBM do not affect our process and are not implemented and why."

Documentation

The Company does not prepare formalized documentation of its systems program definitions, a high level systems flow chart, narratives, program file definitions or program flow charts for every application.

Logical and Physical Security

A review of the Company's logical and physical security indicated the following:

- The Company does not review and resolve reports of security violations. Management stated that "While it is true MSLIC does not have a report that lists security violations, it is because we are not aware of any violations that have occurred. Access to CICS and other critical systems requires passwords. If someone tries to access with an invalid password, there is not a report that shows this." When repeated access is denied, "IS gets involved, determines what the problem is and provides a resolution."
- The Company does not have sign-out procedures for computer equipment that is removed from the Company's offices. Management indicated that a sign-out process was not necessary.
- The Company's equipment does not have asset management tags affixed and therefore, is not recorded in an asset management system. Management stated that "Computer equipment sent to the district offices is tagged. Because the net book value is not significant and the low volume of activity in this area, management feels that a sophisticated asset management inventory system, although it may be helpful, is not necessary."
- The Company does not have formal monitoring procedures and systems to detect unauthorized access attempts from either outside or inside the Company. Documentation of unsuccessful unauthorized access attempts is not maintained.
- The Company does not have formal, documented emergency response procedures to follow if a computer security incident occurs.

The Assistant Vice President, Application Systems indicated that use of sensitive software utilities is restricted to authorized personnel. There is no formal log or record of use of these types of software. Three follow-up requests were sent for a list of sensitive software and people authorized to use it. The Vice President of Information Technology ultimately responded that initially, the question was answered incorrectly and that the Company does not have a formal control of special software. A listing of "sensitive software utilities" was ultimately provided.

IS Strategy

The Company's IS plans and strategies have not been reduced to writing or included in a manual. Also, there is no formal Table of Contents or Executive Overview of the strategic plan for the business and information systems. Management stated that "meetings and planning sessions do occur and the thought processes that are involved in managing IS are constantly undergoing re-assessment."

Contingency Planning

A review of the Company's contingency planning indicated the following:

- The Company has a business contingency plan; however, it is not based on a business impact analysis and has not been tested. Also, the plan does not address all significant business activities including financial functions, telecommunication services, data processing and network services.
- Although the Company maintains that there is an informal/verbal agreement for use of an alternate site and computer hardware to restore data processing operations after a disaster occurs, no written agreement of the arrangements was available for review.
- The Company's business contingency plan does not contain a list of the supplies that would be needed in the event of a disaster, together with names and phone numbers of the suppliers.
- User departments have not developed adequate manual processing procedures for use until the electronic data processing function can be restored.
- The Company has an up-to-date disaster recovery plan in effect; nevertheless, the plan has not been completely tested.

COMPANY OPERATIONS/MANAGEMENT Standard 2, of the NAIC's Market Conduct Examiners Handbook requires that the Company has appropriate controls, safeguards and procedures for protecting the integrity of computer information

FINANCIAL STATEMENT INDEX

The Financial Statements included in this report were prepared on the basis of the Company's records and the valuations and determinations made during the course of the examination for the year 2004. Amounts shown in the comparative statements for the year 2000, 2001, 2002, and 2003 were compiled from Company copies of filed Annual Statements. The statements are presented in the following order:

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Statement of Assets, Liabilities, Surplus and Other Funds.....	32
Summary of Operations.....	35
Capital and Surplus Account.....	36

**THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTREGRAL PART
THEROF.**

MUTUAL SAVINGS LIFE INSURANCE COMPANY
STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
For the Year Ended December 31, 2004

	<u>Assets</u>	<u>Nonadmitted</u> <u>Assets</u>	<u>Net Admitted</u> <u>Assets</u>
Bonds (Note 1)	\$ 371,571,091	\$ -	\$ 371,571,091
Stocks: Common stocks (Note 2)	2,060,938	-	2,060,938
Mortgage loans on real estate: First liens	87,447	-	87,447
Real estate:			
Properties occupied by the Company	4,859,645	-	4,859,645
Properties held for sale (Note 3)	3,047	-	3,047
Cash, cash equivalents and			
short-term investments (Note 4)	4,831,402	-	4,831,402
Contract loans (Note 5)	10,956,264	9,314	10,946,950
Other invested assets	2,491,839	-	2,491,839
Subtotal, cash and invested assets	\$ 396,861,673	\$ 9,314	\$ 396,852,359
Investment income due and accrued	6,577,658	28,123	6,549,535
Premium considerations:			
Uncollected premiums and agents' balances in			
the course of collection (Note 6)	1,005,680	-	1,005,680
Deferred premiums, agents' balances and			
installments booked but deferred and not			
yet due (Note 6)	8,456,010	-	8,456,010
Reinsurance: Amounts recoverable from reinsurers	106,035	-	106,035
Current federal and foreign income tax recoverable			
and interest thereon (Note 7)	2,662,912	-	2,662,912
Net deferred tax asset	11,483,565	9,346,109	2,137,456
Guaranty funds receivable or on deposit	21,915	-	21,915
Electronic data processing equipment and software	131,454	-	131,454
Furniture and equipment, including health care			
delivery assets	305,964	305,964	-
Other assets nonadmitted	6,774	6,774	-
Suspense	210,821	210,821	-
Premium tax paid in advance	331,184	331,184	-
Goodwill on assumption reinsurance - Spry Life			
and Accident	192,280	192,280	-
Amounts due from agents	61,038	61,038	-
Total	<u>\$ 428,414,963</u>	<u>\$ 10,491,607</u>	<u>\$ 417,923,356</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART
THEREOF.

MUTUAL SAVINGS LIFE INSURANCE COMPANY
STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
(continued)
For the Year Ended December 31, 2004

<u>LIABILITIES</u>	<u>2004</u>
Aggregate reserve for life contracts (Note 8)	\$ 365,625,816
Aggregate reserve for accident and health contracts (Note 9)	12,989,792
Liability for deposit-type contracts (Note 10)	908,305
Contract claims:	
Life (Note 11)	5,959,973
Accident and health (Note 12)	2,306,432
Coupons and similar benefits	17,950
Premiums and annuity considerations for life and accident and health contracts received in advance	573,589
Contract liabilities not included elsewhere: Interest maintenance reserve	3,141,101
Commissions to agents due or accrued - life contracts and annuity contracts	
\$93,172 accident and health \$67,479 and deposit-type funds \$0 (Note 13)	160,651
General expenses due or accrued (Notes 13 and 14)	1,138,502
Taxes, licenses and fees due or accrued, excluding federal income tax (Note 15)	106,530
Unearned investment income	56,565
Amounts withheld or retained by company as agent or trustee	507,248
Amounts held for agents' account including \$326,419 agents' credit balances	326,419
Miscellaneous liabilities:	
Asset valuation reserve	2,164,024
Payable to parent, subsidiaries and affiliates	6,274
Demutualization dividend	511,328
TOTAL LIABILITIES	\$ 396,500,499
<u>CAPITAL AND SURPLUS</u>	
Common capital stock	\$ 2,093,426
Surplus notes	7,000,000
Gross paid in and contributed surplus	37,477,652
Unassigned funds (surplus) (Note 16)	(25,148,221)
Surplus	19,329,431
TOTAL CAPITAL AND SURPLUS	\$ 21,422,857
TOTAL LIABILITIES, CAPITAL AND SURPLUS	\$ 417,923,356

**THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTREGRAL PART
THEREOF.**

MUTUAL SAVINGS LIFE INSURANCE COMPANY
SUMMARY OF OPERATIONS
For the Years Ended December 31, 2004, 2003, 2002 and 2001

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Premiums and annuity considerations for life and accident and health contracts	53,917,450	54,325,183	\$ 55,567,805	\$ 47,872,262
Net investment income	23,108,806	22,740,879	23,591,235	19,504,999
Amortization of interest maintenance reserve	455,720	276,430	182,660	201,174
Commissions and expense allowances on reinsurance ceded	128,692	1,011,284	732,846	766,098
Miscellaneous income	517,955	512,424	515,217	481,437
TOTAL	\$ 78,128,623	\$ 78,866,200	\$ 80,589,763	\$ 68,825,970
Death benefits	\$ 23,606,504	\$ 20,806,781	\$ 21,772,911	\$ 15,646,029
Matured endowments	420,054	550,519	596,489	501,866
Annuity benefits	1,081,579	1,152,510	1,029,864	1,118,890
Disability benefits and benefits under accident and health contracts	6,957,128	5,152,903	6,318,148	5,284,646
Coupons, guaranteed annual pure endowments and similar benefits	19,120	14,146	36,819	(920)
Surrender benefits and withdrawals for life contracts	4,613,238	4,883,483	6,527,942	3,828,222
Interest and adjustments on contracts or deposit-type contract funds	382,913	350,927	396,599	355,431
Payments on supplementary contracts with life contingencies	5,676	5,866	6,055	6,055
Increase in aggregate reserves for life and accident and health contracts	(2,408,354)	1,095,404	(1,407,874)	629,396
TOTAL	\$ 34,677,858	\$ 34,012,539	\$ 35,276,953	\$ 27,369,615
Commissions on premiums, annuity considerations, and deposit-type contract funds	12,031,747	12,903,195	13,843,600	13,673,892
General insurance expenses	19,402,778	17,755,294	18,901,628	16,438,598
Insurance taxes, licenses and fees, excluding federal income taxes	2,361,914	2,419,354	2,302,320	2,180,049
Increase in loading on deferred and uncollected premiums	(704,946)	(63,136)	(882,587)	591,230
Cost of coinsurance (ALIC) ceding fee				25,709,666
Management fee to parent	2,025,000	1,800,000	1,172,000	1,610,000
Demutualization dividend - ALIC	(2,645)	(3,636)	968	2,151
Decrease in liability for benefits for employees	(63,311)	(75,367)	(1,375)	(5,624)
Increase (decrease) in amounts withheld or retained by company as agent or trustee			(86,786)	(37,606)
Amortization of goodwill - Spry assumption	26,830	26,830	22,360	-
TOTAL	\$ 69,755,225	\$ 68,775,073	\$ 70,549,081	\$ 87,531,971

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTREGRAL PART THEREOF.

MUTUAL SAVINGS LIFE INSURANCE COMPANY
SUMMARY OF OPERATIONS (continued)
For the Years Ended December 31, 2004, 2003, 2002 and 2001

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net gain from operations after dividends to policyholders and before federal income taxes	\$ 8,373,398	\$ 10,091,127	\$ 10,040,682	\$ (18,706,001)
Federal and foreign income taxes incurred	<u>(1,607,859)</u>	<u>2,627,674</u>	<u>173,620</u>	<u>(10,132)</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	9,981,257	7,463,453	9,867,062	(18,695,869)
Net realized capital gains or (losses)	<u>103,158</u>	<u>634,892</u>	<u>(1,383,530)</u>	<u>(552,885)</u>
Net income	\$ 10,084,415	\$ 8,098,345	\$ 8,483,532	\$ (19,248,754)

CAPITAL AND SURPLUS ACCOUNT

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Capital and surplus, December 31, prior year	\$ 31,203,669	\$ 24,899,842	\$ 23,162,611	\$ 20,083,496
Net income	\$ 10,084,415	\$ 8,098,345	\$ 8,483,532	\$ (19,248,754)
Change in net unrealized capital gains (losses)	(1,413,329)	1,014,653	(680,449)	848,447
Change in net deferred income tax	384,601	(18,686)	(3,929,155)	7,027,312
Change in nonadmitted assets and related items	173,256	206,665	3,246,763	(6,965,080)
Change in reserve on account of changes in valuation basis	-	-	910,000	-
Change in asset valuation reserve	829,924	(1,019,571)	1,147,777	(221,615)
Change in surplus notes	-	(30,477,652)	-	27,000,000
Cumulative effect of changes in accounting principles	-	(1,359,072)	(133,942)	772,544
Surplus adjustment: Paid in	-	37,477,652	-	-
Dividends to stockholders	(7,463,064)	(8,038,756)	(7,007,295)	(6,133,738)
Race based litigation	(12,376,615)	-	-	-
Gibson beneficiary class liability	-	420,249	-	-
Broker fee - ALIC correction to cost of coinsurance	-	-	(300,000)	-
Net change in capital and surplus for the year	<u>\$ (9,780,812)</u>	<u>\$ 6,303,827</u>	<u>\$ 1,737,231</u>	<u>\$ 3,079,116</u>
Capital and surplus, December 31, current year	<u>\$ 21,422,857</u>	<u>\$ 31,203,669</u>	<u>\$ 24,899,842</u>	<u>\$ 23,162,612</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART
THEREOF.

NOTES TO FINANCIAL STATEMENTS

Note 1 – Bonds

\$371,571,091

The captioned amount is the same as reflected in the Company's 2004 Annual Statement.

The Board of Directors minutes were reviewed for the period under examination. It was noted that investments were not approved by the Board of Directors until March 2002. ALA. CODE § 27-41-5 (1975) states that:

“an insurer shall not make any investment or loan, other than loans on policies or annuity contracts, unless the same be authorized, approved, or ratified by the board of directors of the insurer or by such committee or person as the board of directors shall expressly authorize. The action of the board of directors, the committee or other persons so authorized shall be recorded and regular reports thereof shall be submitted to the board of directors.”

In compliance to a recommendation made in the prior examination, the Board of Directors approved investments on a quarterly basis, beginning on March 1, 2002.

The NAIC's 2004 Jumpstart Report was utilized to identify and clear all designation and valuation exceptions. From the Investment Analysis of 2004's *Schedule D – Part 1*, there were 35 long-term bonds with a Company designation rating of “1” and 27 long-term bonds with a Company designation rating of “1FE.” Of the 35 securities with “1” designation, 31 should have been designated “1FE”. The securities were deemed exempt from filing because they met the terms of filing exemption provided in either Part Four, Section 2(b)(I), or Part Four, Section 2(b)(ii) of the Purposes and Procedures of the NAIC Securities Valuation Office manual (SVO Manual).

Assumptions for cash flows

It was noted that the Company reviews prepayment assumptions for mortgage-backed securities on an annual basis. *SSAP No. 43*, paragraph 10, of the NAIC's Accounting Practices and Procedures Manual states:

“For securities that have the potential for loss of a portion of the original investment due to changes in interest rates or prepayments, the review shall be performed at least quarterly.”

Note 2 – Common stocks

\$2,060,938

The captioned amount is the same as reported in the Company's 2004 Annual Statement but \$9,237 more than \$2,051,701 determined by this examination.

The Company did not complete and submit SUB 1-forms to the NAIC's SVO within 30 days of the SCA (Subsidiary, Controlled or Affiliated) investment in Mutual Finance, Inc., in accordance with the SVO Manual. In addition, the Company did not complete and submit SUB 2-forms to the SVO for each year following the acquisition of this wholly-owned subsidiary. According to Part Eight, Section 3(a) of the SVO Manual, only investments in insurance SCA entities valued under Part Eight, Section 3(b)(ii)(A) of the SVO Manual are not required to be filed after January 1, 1999. Mutual Finance, Inc., is a non-insurance SCA; therefore, Part Eight, Section 3(b)(ii)(A) of the referenced manual is not applicable to the SCA investment in Mutual Finance, Inc.

ALA. ADMIN. CODE 482-1-098 (1994), Section 2.A., states that all securities owned by an insurer shall be valued in accordance with those standards promulgated by the SVO. Any security owned by an insurer that has not been valued by the SVO shall be submitted to the SVO for valuation in accordance with the SVO Manual. ALA. ADMIN. CODE 482-1-098 (1994), Section 2.C., states that any security not valued in accordance with this section shall be carried as a non-admitted asset on all financial statements of the insurer until such time as the insurer has complied with subsection A or B of this section. Due to immateriality, no changes were made to the financial statements.

A Company official indicated that Mutual Finance, Inc., is not a publicly traded company, does not have a CUSIP number assigned by a CUSIP Service Bureau, and/or is not required to be listed with the SVO. The Company assigned their own number using "an old formula for developing CUSIP numbers" to be able to have a CUSIP number in *Schedule D*. According to the NAIC's Annual Statement Instructions (*Schedule D-Part 2-Section 2, Common Stock owned*, and *Schedule D-Part 6-Section 1, Valuation of Shares of SCA Companies*), number assignments for privately issued securities purchased subsequent to December 31, 1998, will be made by a special NAIC facility at the Standard and Poor's (S&P) CUSIP Bureau.

The examiners also obtained confirmation directly from the SVO that the Company is required to obtain a Private Placement Number (PPN) from the S&P CUSIP Bureau for its investment in Mutual Finance, Inc.

Note 3 – Real estate: Properties held for sale

\$4,859,645

The captioned amount is the same as reported by the Company in its 2004 Annual Statement but \$3,047 more than the \$4,856,598 amount determined by this examination.

For the two properties categorized as “held for sale” within the 2004 Annual Statement, the Company was unable to provide appraisals. Both properties were acquired in 1987 after the purchase of Southern United Life Insurance Company. Company management stated that: “We typically have used the fair market value equal to book value as no appraisal has been done. The cost of an appraisal would probably cost more than the book value of the property listed.”

ALA. CODE § 27-37-7(b) (1975), states that:

“Other real property held by an insurer shall not be valued in an amount in excess of fair value as determined by recent appraisal. If valuation is based on an appraisal more than three years old, the commissioner may at his discretion call for and require a new appraisal in order to determine fair value.”

In addition, *SSAP No. 40*, paragraph 12, of the NAIC’s Accounting Practices and Procedures Manual requires that:

“For all properties held for sale, an appraisal shall be obtained at the time such property is classified as held for sale, and subsequently an appraisal shall be maintained that is no more than five years old as of the reporting date.”

Without current appraisals, the properties should be non-admitted for statutory reporting purposes. Since the \$3,047 amount was not material, no changes were made to the financial statements in this examination. Utilizing the above guidelines, and in the event the Company wishes to admit the real estate in future Annual Statements, then updated appraisals should be obtained in accordance with the aforementioned regulatory authorities.

The Company does not maintain insurance coverage on all of its properties included within *Schedule A* of the 2004 Annual Statement. The two properties categorized as “held for sale” are not insured by the Company. Only one of these two properties consists of land and a building.

Note 4 – Cash, cash equivalents and short-term investments

\$4,831,402

The captioned amount is the same as reported by the Company in its 2004 Annual Statement.

A bank reconciliation was prepared for the Company's regular checking account with Colonial Bank. The amount reported within *Schedule E - Part 1* of the 2004 Annual Statement was the Company's ledger balance before adjustments as of December 31, 2004. The difference between the ledger balance before adjustments (\$2,011,299) and the reconciled bank and ledger balance after adjustments (\$1,880,129) was \$131,170. This amount was immaterial for the purposes of this examination, and the financial statements in this report have not been changed to reflect this difference.

Within *Schedule E – Part 1* of the 2004 Annual Statement, the Company reported an account balance of \$(171,141) for an Atlanta Life Insurance Company bank account. The Company was unable to show ownership of these assets as the account was not in the Company's name. ALA. CODE § 27-37-1 (1975) states:

“In any determination of the financial condition of an insurer, there shall be allowed as assets only such assets as are owned by the insurer and which consist of:
(1) Cash in the possession of the insurer or in transit under its control, and including the true balance of any deposit in a solvent bank or trust company...”

Note 5 – Contract loans

\$10,946,050

The captioned amount is the same as reflected in the Company's 2004 Annual Statement.

A sample of policy loans was selected to determine the completeness and accuracy of the line item. Policy loan applications were requested in order to confirm signatures with the endorsements of the cancelled checks. The Company was unable to provide the policy loan application and cancelled check for one of the sampled items. The policy loan was processed by Atlanta Life Insurance Company in August 2001, before the Company acquired blocks of Atlanta Life policies. ALA. CODE § 27-27-29 (1975) requires that:

“Every domestic insurer shall have, and maintain...complete records of its assets, transactions and affairs...”

Note 6 – Premiums and considerations:

<u>Uncollected premiums and agents' balances</u>	
<u>in the course of collection</u>	<u>\$1,005,680</u>
<u>Deferred premiums, agents' balances and</u>	
<u>installments booked but deferred and not yet due</u>	<u>\$8,456,010</u>

The captioned amounts are the same as reported by the Company in its 2004 Annual Statement.

The actuarial examiner noted that the Company did not record a net due or deferred premium on those policies that were coinsured. The Company did not make such calculation as reinsurance premiums were paid on an annual basis, and no deferred premiums were required.

Premium discrepancies

A sample of 32 December 2004 premium collections was selected in order to trace the individual determinants from the premium reports to the policy application. After reviewing the policy applications, the examiner determined that there were eighteen premium discrepancies with the Atlanta Life policies. After questioning the reasons for the discrepancies, the Company stated that they did not receive the premium histories for the Atlanta Life policies when the policies were assumed in 2001. Therefore, the Company does not know why there were premium discrepancies. In addition, the Company could not provide one policy application from the sample of 32. ALA. CODE § 27-27-29(a) (1975) requires that "Every domestic insurer shall have, and maintain...complete records of its assets, transactions and affairs..."

Gross premium valuation

The Company has never performed a gross premium valuation in accordance with SSAP No. 54, paragraph 23, of the NAIC's Accounting Practices and Procedures Manual. The actuarial examiner recommends that the Company prepare a prospective gross premium valuation of the accident and health insurance line and submit it to the Alabama Department of Insurance. A more detailed discussion on this matter may be found in this section under the "Note 8 – Aggregate Reserve for Accident and Health Contracts" caption (see page 44).

**Note 7 – Current federal and foreign income taxes recoverable
and interest thereon**

\$2,662,912

The captioned amount is the same as reported within the 2004 Annual Statement.

SSAP No. 10, paragraph 23, of the NAIC's Accounting Practices and Procedures Manual, states that if a reporting entity's federal income tax return is consolidated with those of any other entity or entities, the following shall be disclosed: (a) a list of the names of the entities with whom the reporting entity's federal income tax return is consolidated for the current year; and (b) the substance of the written agreement, approved by the reporting entity's Board of Directors, which sets forth the manner in which the total combined federal income tax for all entities is allocated to each entity which is a party to the consolidation. Additionally, the disclosure shall include the manner in which the entity has an enforceable right to recoup federal income taxes in the event of future net losses which it may incur or to recoup its net losses carried forward to offset to future income subject to federal income taxes.

Within the Company's 2004 Annual Statement *Notes to Financial Statements*, the Company did not disclose that the agreement was approved by the Board of Directors.

Note 8 – Aggregate Reserve for Life Contracts

\$365,625,816

The captioned amount is the same as reported by the Company in its 2004 Annual Statement but \$1,028 less than the \$365,626,844 amount determined by the examination.

When the detail for this liability was provided to the examiners, Mr. Mike Moore, MAAA, Vice President and Actuary, explained that the detail for the Atlanta Life substandard premium reserves would not be found in the documentation furnished. Per Mr. Moore, the reserve amount for the substandard premium reserves was given to the Company by Atlanta Life without supporting documentation, and the Company has maintained that reserve amount until it could be accurately calculated. It could not be explained why the examiners reconciled the detail to the Company's 2004 Annual Statement within \$1,028, and the detail was more than the Company reported. Per Mr. Moore, the detail should have been \$8,179 less than the reported amount due to the Atlanta Life reserves.

Per the actuarial examiner, these reserve amounts for the substandard premium are based upon the Standard Industrial Table and the Substandard Industrial Table. These two tables are very conservative mortality tables and, as such, contain certain redundancies, which are sufficient for most situations. Thus, it is the opinion of the actuarial examiner that the redundancies contained in the industrial mortality tables

would contain sufficient conservatism such that the insignificant amount of substandard reserves would be provided for in the basic reserve tables. However, it is still recommended that the opening actuary continue to investigate and obtain such information that would allow a separate, individually calculated substandard reserve to be recorded accurately.

Since the Company could not provide documentation for the Atlanta Life substandard premium reserves, the Company is not in compliance with ALA. CODE § 27-27-29(a) (1975), which states:

“Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.”

The Company could not explain why the detail amount was greater than the amount reported in its 2004 Annual Statement. However, the amount was deemed immaterial for the purposes of this examination, and no changes were made to the financial statements in this report.

Note 9 – Aggregate Reserve for Accident and Health Contracts **12,989,792**

The captioned amount is the same as reported by the Company in its 2004 Annual Statement but is \$348,380 more than the \$12,641,412 amount determined by the examination.

It was determined that the Company did not have any supporting detail for the Atlanta Life accident and health unearned premium reserves and the Atlanta Life accident and health active life reserves. Per Mr. Mike Moore, MAAA, Vice President and Actuary, “Each of these items were either given to us by Atlanta Life or agreed to by Atlanta Life to represent the liability. We have maintained these reserves until we can more accurately calculate these reserves.” Consequently, the Company is not in compliance with ALA. CODE § 27-27-29(a) (1975), which requires:

“Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.”

In order to determine if the Company paid claims in a reasonable amount of time, the examiners selected a sample of 32 accident and health contract claims due and unpaid at December 31, 2004. The Company paid all but five of the claims sampled in a

reasonable time. For the five not paid timely, the Company was not in compliance with ALA. CODE § 27-1-17(a) (1975), which states that:

“Each insurer, health service corporation, and health benefit plan that issues or renews any policy of accident or health insurance providing benefits for medical or hospital expenses for its insured persons shall pay for services rendered by Alabama health care providers within 45 calendar days upon receipt of a clean written claim or 30 calendar days upon receipt of a clean electronic claim.”

Gross Premium Valuation

The Company has never performed a gross premium valuation in accordance with *SSAP No. 54*, paragraph 23, of the NAIC's Accounting Practices and Procedures Manual, which states:

“As discussed in Appendix A-010, a prospective gross premium valuation is the ultimate test of the adequacy of a reporting entity's accident and health reserves as of a given valuation date and shall be determined on the basis of unearned premium reserves, contract or additional reserves, claim reserves (including claim liabilities), and miscellaneous reserves combined; however, each component shall be computed separately.”

Because of the severe fluctuations in the earnings for the accident and health insurance line over the last five years, the actuarial examiner recommends that the Company prepare a prospective gross premium valuation of the accident and health insurance line and submit it to the Alabama Department of Insurance. The prospective gross premium valuation should be performed in accordance with *SSAP No. 54*, paragraph 23 and Appendix A-010.

Appendix A-010 of the NAIC's Accounting Practices and Procedures Manual, includes the following:

“Paragraph 21. When an insurer determines that adequacy of its health insurance reserves requires reserves in excess of the minimum standards specified herein, such increased reserves shall be held and shall be considered the minimum reserves for that insurer.

Paragraph 22. With respect to any block of contracts, or with respect to an insurer's health business as a whole, a prospective gross premium valuation is the ultimate test of reserve adequacy as of a given valuation date. Such a gross premium valuation will take into account, for contracts in force, in a claims status, or in a continuation of benefits status on the valuation date, the present value as of the valuation date of: all expected benefits unpaid, all expected expenses unpaid, and all unearned or expected premiums, adjusted for future premium increases reasonable expected to be put into effect.

Paragraph 23. Such a gross premium valuation is to be performed whenever a significant doubt exists as to reserve adequacy with respect to any major block of contracts, or with respect to the insurer's health business as a whole. In the event inadequacy is found to exist, immediate loss recognition shall be made and the reserves restored to adequacy. Adequate reserves (inclusive of claim, premium and contract reserves, if any) shall be held with respect to all contracts, regardless of whether contracts reserves are required for such contracts under these standards."

Note 10 – Liability for deposit-type contracts

\$908,305

The captioned amount is the same as reported by the Company in its 2004 Annual Statement.

Per Mr. Mike Moore, MAAA, Vice President and Actuary, the Company has no detail for the following items:

ATL Life supplementary contracts	\$ 11,654
ATL Life Deposit Funds	<u>\$350,000</u>
Total	<u>\$361,654</u>

Mr. Moore stated that "Each of these items were either given to us by Atlanta Life or agreed to by Atlanta Life to represent the liability. We have maintained these reserves until we can more accurately calculate these reserves." The Company is not in compliance with ALA. CODE § 27-27-29(a) (1975), which requires:

"Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

Even though the Company was unable to provide the proper detail and documentation necessary to calculate an exact liability, by means of a review of those policies that have the potential for unpaid coupons, the actuarial examiner was able to determine that the recorded liability is within an acceptable range, and the actuarial examiner did not see anything that would indicate that the liability was materially understated.

Note 11 – Contract claims: Life

\$5,959,973

The captioned amount is the same as reported in the Company's 2004 Annual Statement.

The Company did not set up any claims adjustment expenses during the period under examination. A normal percentage to be used for claims adjustment expenses is 2% of the outstanding liabilities. The outstanding claim liability for industrial life at year-end 2004 was \$661,740, and \$5,298,233 for ordinary life. This information was obtained from *Exhibit 8*, columns 2 and 3, line 4.4, of the 2004 Annual Statement. Applying the 2% would give a total claims adjustment expense of \$119,199. This is an adjustment which will not be made in the examination report since it is less than the materiality level, but the Company should record a claims adjustment expense liability each year in accordance with *SSAP No. 55*, of the NAIC's Accounting Practices and Procedures Manual to include "[c]osts expected to be incurred (including legal and investigations) in connection with the adjustment and recording of life claims..."

In order to verify that claims were paid in a reasonable amount of time, the examiners selected a sample of 45 life contracts due and unpaid at December 31, 2004. Two exceptions noted.

- One of the claims was received on May 24, 2004 and not paid until August 4, 2005. The Company received a claim on two policies on May 24, 2004. Benefits were paid on one of the policies on that date while the second policy was not paid until August 4, 2005. There was no documentation in the file that demonstrates why this claim was not paid in a timely manner. Therefore, the Company is not in compliance with ALA. ADMIN. CODE 482-1-124 (2003), Section .04, which states that payment for those portions that are not disputed shall be made within sixty days. The Company paid the claim 437 days after the claim was received.
- The other claim was received on December 21, 2004, and not paid until April 8, 2005. It was determined that the Company wrote a letter to the funeral home that sent in the claim, requesting the mailing address of the beneficiary. When the claim was submitted to the Company, the claim form stated that the proceeds of the claim were assigned to the funeral home. The claim form included the address of the funeral home. Therefore, the Company had the address to which the claim amount needed to be paid. The necessity of the Company receiving the mailing address of the beneficiary could not be determined. Per the Company's policy provisions, "Losses payable under this policy will be payable immediately upon receipt of written proof of covered loss. All benefits payable under this policy for any loss will be paid within forty-five days after receipt of due proof of such loss." In addition, the Company was not in compliance with Section .04 of ALA. ADMIN. CODE 482-1-124 (2003), which requires that undisputed claims be paid within 60 days. The Company paid this claim 77 days after the claim was received; therefore, the Company did not comply with its policy provisions, nor Section .04 of the aforementioned regulation.

Note 12 – Contract claims: Accident and health

\$2,306,432

The captioned amount is the same as reported in the Company's 2004 Annual Statement.

The Company did not set up any claims adjustment expenses during the period under examination. A normal percentage to be used for claims adjustment expenses is 3% of the outstanding liabilities. The outstanding claim liability for accident and health at the end of 2004 was \$2,306,432. This amount was obtained from *Exhibit 8*, column 11, line 4.4, of the 2004 Annual Statement. Applying the 3% would give a total claims adjustment expense of \$69,193. This is an adjustment which will not be made on the examination report due to immateriality. *SSAP No. 55*, of the NAIC's Accounting Practices and Procedures Manual requires a claims adjustment expense liability to be set up for accident and health claims liabilities.

A sample of 32 was selected from claims reported in 2004, and paid in 2005. It was determined that 20 of the sampled claims had a wrong report date. Therefore, the Company was not in compliance with ALA. CODE § 27-27-29(a) (1975), which states:

“Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.”

Note 13 – Commissions to agents due or accrued

\$ 160,651

General expenses due or accrued

\$1,138,502

The captioned amount for *Commissions to agents due or accrued* is the same as reported in the Company's 2004 Annual Statement but \$1,500 more than the \$159,151 determined by this examination. The captioned amount for *General expenses due or accrued* is the same as reported in the Company's 2004 Annual Statement but \$1,500 less than the \$1,140,002 determined by this examination.

It was determined that the Company included a bonus amount in the 2004 *Commissions to agents due or accrued* line item, and the amount should have been included in *General expenses due or accrued*. The Company was not in compliance with the NAIC's Annual Statement Instructions. Due to immateriality, no changes were made to the financial statements.

During the prior examination, there was a recommendation made that the Company maintain its records of commissions due and accrued in a manner that a listing of

policies of which commissions were due and accrued are available for examination in accordance with ALA. CODE § 27-27-29(a) (1975). That statute states that:

“Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds of insurance transacted.”

In response to the previous recommendation, the Company indicated that corrective action on this matter was to “improve upon the retention of information and detail reporting of commissions paid to agents and any accrued commission payable based upon its agents contract.” As of December 31, 2004, the Company had not complied with the recommendation. Management stated:

“MSLIC does not pay its agents in this manner and the agent’s contract is not structured in the manner to provide the request commission paid by policy by agent information. Due to the nature of our business, we cannot comply with this request. MSLIC is a home service operation and its agents are compensated differently from a more traditional company with independent agents.”

Note 14 – General expenses due or accrued

\$1,138,502

The captioned amount is the same as reported by the Company in its 2004 Annual Statement.

The Company did not set up an adequate accrual for general expenses in its 2004 Annual Statement. Legal invoices paid in the first quarter of 2005 were reviewed in order to determine if any of the invoices were related to 2004 expenses. It was determined that there were fourteen invoices, totaling \$56,392, relating to 2004. Four of the invoices totaling \$15,232, were properly included in the accrual; ten invoices totaling \$41,161 were not. Consequently, the Company should have accrued for another \$41,161. The total for these disbursements was deemed immaterial for the purposes of this examination. However, the Company should establish adequate accruals for its legal fees in accordance with *SSAP No. 5*, paragraph 4, of the NAIC’s Accounting Practices and Procedures Manual, which states that:

“Estimates are required in financial statements for many ongoing and recurring activities of a reporting entity.”

These expenses should be recorded in the general expense line item in accordance with the NAIC’s Annual Statement Instructions.

Note 15 – Taxes, licenses, and fees

\$106,530

The captioned amount is the same as reported by the Company in its 2004 Annual Statement.

During the review of this line item, a reconciliation of *Schedule T* to *Exhibit 1* of the 2004 Annual Statement was to be prepared. However, the two schedules were irreconcilable. According to the NAIC's Annual Statement Instructions, the sum of columns 2 and 3 of *Schedule T* should agree with *Exhibit 1*, lines 6.4, plus 10.4, plus 16.4 of column 1, less columns 8, 9, 10, and 11 of *Exhibit 1*. The sum of columns 2 and 3 reported within *Schedule T* of the 2004 Annual Statement was \$45,965,133. The sum of lines 6.4, 10.4, and 16.4, column 1, less columns 8, 9, 10, and 11 of *Exhibit 1* was \$46,257,223. This \$292,090 difference did not impact the financial statements in this report. Company management acknowledged the error and indicated corrections would be made in future statement filings.

Note 16 – Unassigned funds (surplus)

\$(25,148,221)

The above captioned amount is the same as reported in the Company's 2004 Annual Statement.

There were no material findings during this examination, and the immaterial findings were not material in the aggregate. Therefore, no changes were made to the financial statements in this report.

CONTINGENT LIABILITIES AND PENDING LITIGATION

The review of contingent liabilities and pending litigation included an inspection of representations made by Company management; a review of a report to the examiners on pending litigation made by the Company's attorney; and a general review of the Company's records and files conducted during the examination, including a review of claims. These reviews did not disclose any items that would have a material effect on the Company's financial condition in the event of an adverse outcome.

The Company had eight on-going policy-related litigations and seven non-policy related litigations at December 31, 2004. The Company properly set up a liability for a class action suit, which is detailed later in this section; however, an accrual was not established for legal expenses and estimated settlement amounts for the other cases. *SSAP No. 5*, paragraph 4, of the NAIC's Accounting Practices and Procedures Manual, states that: "Estimates are required in financial statements for many ongoing and recurring activities of a reporting entity."

Mutual Savings Life Insurance Company (MSLIC) was a defendant in a purported class action suit filed on December 15, 1999, in the United States District Court, Northern Division of Alabama, alleging, among other things, that MSLIC discriminated against African-Americans by selling insurance at higher rates and failed to disclose to certain insureds that more affordable insurance may be available elsewhere. During 2003, the Company entered into negotiations to settle all outstanding claims which would largely be paid out through policy enhancements. On December 27, 2004, the Company settled the lawsuit. The following information was included in the *Contingencies* section of the 2004 Annual Statement's *NOTES TO FINANCIAL STATEMENTS*:

"One part of the unpaid liability, related to terms of the settlement at December 31, 2004, included in the liability for contract claims on page 3 line 4.1 is \$2,206,820 which is managements estimate for additional cash payments for relevant historic death claims/surrenders. The other part of the liability, related to terms of the settlement, included in the aggregate reserve liability on page 3 line 1 is \$3,039,810 and line 2 is \$6,870, which are managements estimate of the immediate increase to policy reserves for an additional death benefit or other benefit, to be paid upon the future death or other insured event of the insured, on relevant inforce policies."

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was conducted during the current examination with regard to the Company's compliance with the recommendations made in the previous examination report. This review indicated that the Company had satisfactorily complied with the prior recommendations, with the exception of certain items listed below.

Fidelity Bonds and Other Insurance – The previous two examinations have recommended that the Company obtain at least minimum fidelity bond coverage. During the examination period, the Company did not carry fidelity bond coverage for protection against dishonest or fraudulent acts committed by employees; therefore, the Company did not comply with the recommendation made in the previous examination report.

Accounts and Records – As reported in the previous examination, there was a recommendation made that the Company test its business contingency plan. As of December 31, 2004, the Company had not complied with the recommendation.

Commissions to Agents Due or Accrued – During the prior examination, there was a recommendation made that the Company maintain its records of commissions due and accrued in a manner that a listing of policies of which commissions were due and accrued are available for examination in accordance with ALA. CODE § 27-27-29(a) (1975). The Company did not comply with this recommendation.

Detailed discussions and additional commentary on these matters may be found in the NOTES TO FINANCIAL STATEMENTS and COMMENTS AND RECOMMENDATIONS sections of this examination report, under the specific captions to which they pertain.

COMMENTS AND RECOMMENDATIONS

The following summary presents the comments and recommendations that are made in the current *Report of Examination*.

Transactions and Agreements with Affiliates – Page 12

It is again recommended that the Company operate in accordance with the terms of its *Management Services Agreement* by requiring written notices regarding waivers.

Fidelity Bonds and Other Insurance – Page 14

It is recommended that Company make a good faith attempt annually to obtain at least the minimum amount of fidelity coverage for protection against dishonest or fraudulent acts committed by employees in accordance with the guidelines established by the NAIC's Financial Condition Examiners Handbook. This recommendation has also been made in the previous two examination reports.

It is recommended that the Company comply with ALA. CODE § 27-27-26(a) (1975), which requires that:

“Any officer, or director, or any member of any committee... who is charged with the duty of investing or handling the insurer's funds...shall not be pecuniarily interested in any loan, pledge or deposit, security, investment, sale, purchase, exchange, reinsurance or other similar transaction or property... and shall not take or receive to his own use any fee, brokerage, commission, gift or other consideration for, or on account of, any such transaction made by, or on behalf of, such insurer.”

It is recommended that the Company not allow any director, who is not an officer or employee of the Company, to transfer the Company's securities without proper corporate authorization and resolution. It was noted that subsequent to the examination period, management sent written notification to the Trust Officer of the financial institution holding the Company's custodial accounts, whereby the director's authority regarding transfers of securities and/or monies into or from the Company's custodial accounts was removed.

Employee and Agent Welfare – Page 15

It is recommended that the Company require all current employees and agents to sign an affidavit concerning the Violent Crime and Law Enforcement Act of 1994 on an annual basis in order to ensure compliance with US Code, Title 18, Section 1033 (e)(1)(A) and ALA. ADMIN. CODE 481-1-121 (2003). Guideline 1, of the referenced

regulation states that “failure to initiate a screening process in an attempt to identify prohibited persons in current or prospective employment relationships may be a factor in determining if a violation of this statute has occurred.”

Marketing and Sales – Page 18

It is recommended that the Company file an annual Certificate of Compliance for advertisement in accordance with ALA. ADMIN. CODE 482-1-132-.10(3) (2005) that requires:

“Each insurer subject to the provisions of this chapter shall file with the commissioner with its annual statement a certificate of compliance executed by an authorized officer of the insurer stating that to the best of his or her knowledge, information and belief the advertisements that were disseminated by or on behalf of the insurer in this state during the preceding statement year, or during the portion of the year when these rules were in effect, complied or were made to comply in all respects with the provisions of these rules and the insurance laws of this state as implemented and interpreted by this chapter.”

It is recommended that the Company develop a policy to maintain, save, archive or store communications with its producers in compliance with ALA. CODE § 27-27-29(a) (1975), which requires the Company to maintain “complete records of its assets, transactions and affairs...”

Compliance with Agents’ Licensing Requirements – Page 20

It is recommended that the Company maintain a listing of licensing records in order to clearly show dates of appointment and terminations for each producer.

It is also recommended that the Company keep complete and accurate records in accordance with ALA. CODE § 27-27-29(a) (1975), which requires:

“Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.”

Complaint Handling Practices – Page 21

It is recommended that the Company:

- have updated complaint handling procedures/manual in place and communicate such procedures to policyholders;

- keep complete and accurate records in accordance with ALA. CODE § 27-27-29(a) (1975);
- respond to complaints in a timely manner in accordance with Section 6, of Alabama Department of Insurance *Regulation No. 118*, and the ALDOI Bulletin, dated June 18, 1990; and
- record all complaints in the required format on the Company's register in accordance with the applicable COMPLAINT HANDLING standards in the NAIC's Market Conduct Examiners Handbook.

Policyholder Service

Timely cancellations – Page 23

It is recommended that the Company keep documentation of its cancellations/lapse policies that reconciles to the Company's Annual Statement in accordance with ALA. CODE § 27-27-29(a) (1975), which requires that: "Every domestic insurer shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

Surrender Transactions – Page 23

It is recommended that the Company keep documentation of its surrender policies that reconciles to the Company's Annual Statement in accordance with ALA. CODE § 27-27-29(a) (1975), which requires the insurer to maintain "complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

Accounts and Records – Page 26

It is recommended that the Company test its business contingency plan.

It is recommended that the Company maintain complete and accurate records in accordance with ALA. CODE § 27-27-29(a) (1975), which states:

"Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

Both of these recommendations were also made in the previous examination.

It is recommended that the Company maintain complete records of its Hardware Service logs in order to evidence that the underlying causes of operational failures are identified and addressed. ALA. CODE § 27-27-29(a) (1975), requires the Company to maintain complete and accurate documentation of its transactions, and Alabama Department of Insurance *Regulation No. 118*, requires records to be maintained at least five years.

The following recommendations are made regarding the Company's Information Systems:

Management Control – Page 27

It is recommended that the Company develop and maintain a formal, written strategic plan for the business and information systems.

Operations – Page 27

It is recommended that:

- the Company establish controls to ensure that the underlying causes of operational failures are identified and addressed;
- the Company establish controls to ensure the effective administration of databases;
- management provide a periodic maintenance schedule for changes to computer systems and infrastructure as well as a mechanism by which the ramifications of these changes can be considered by all impacted groups; and
- system patches be monitored to ensure that all systems are updated in a timely manner.

Documentation – Page 28

It is recommended that the Company prepare systems program definitions, a high level systems flow chart, narratives, program file definitions or program flow charts for every application.

Logical and Physical Security – Page 28

It is recommended that:

- management review and resolve reports of security violations;
- sign-out procedures be established for computer equipment that is removed from the Company's offices;
- all equipment have asset management tags affixed;
- all equipment be recorded in an asset management system;

- the Company have formal monitoring procedures and systems to detect unauthorized access attempts from either outside or inside the Company;
- the Company establish formal emergency response procedures to follow if a computer security incident occurs; and
- the Company establish, document and operate under formal controls to restrict access to sensitive software utilities.

IS Strategy – Page 29

It is recommended that the Company develop and maintain a formal, written strategic plan for the business and information systems.

Contingency Planning – Page 30

It is recommended that the Company:

- base its business contingency plan on a business impact analysis;
- test its business contingency plan;
- revise its business contingency plan to address all significant business activities including financial functions, telecommunication services, data processing and network services;
- consider maintaining an agreement for the use of an alternate site and computer hardware to restore data processing operations after a disaster occurs;
- revise its business contingency plan to contain a list of supplies that would be needed in the event of a disaster, together with names and phone numbers of the suppliers;
- require user departments to develop adequate manual processing procedures for use until the electronic data processing function can be restored; and
- test its disaster recovery plan.

COMPANY OPERATIONS/MANAGEMENT Standard 2, of the NAIC's Market Conduct Examiners Handbook advocates that: "The company has appropriate controls, safeguards and procedures for protecting the integrity of computer information."

Bonds – Page 37

It is recommended that the Company assign the appropriate designations to securities within *Schedule D* that met the filing exemption conditions of either Part Four, Section 2(b)(I) or Part Four, Section 2(b)(ii) of the NAIC's Purposes and Procedures Manual of the Securities Valuation Office (SVO Manual).

Assumptions for cash flows – Page 37

It is recommended that the Company review the prepayment assumptions for their mortgage-backed securities on a quarterly basis in accordance with *SSAP No. 43*, paragraph 10, of the NAIC's Accounting Practices and Procedure Manual.

Common stock – Page 38

It is recommended that the Company complete and submit the required SUB 1-forms and SUB 2-forms for its SCA (Subsidiary, Controlled or Affiliated) investment in Mutual Finance, Inc., with the NAIC's SVO as described in the NAIC's SVO Manual in order to carry the stock as an admitted asset in accordance with ALA. ADMIN. CODE 482-1-098 (1994).

It is recommended that the Company obtain a PPN for its shares of common stock in Mutual Finance, Inc., in accordance with the NAIC's Annual Statement Instructions.

Real estate: Properties held for sale – Page 39

It is recommended that the Company obtain appraisals for the properties "held for sale" and reported in the Annual Statement in accordance with ALA. CODE § 27-37-7(b) (1975), which states: "Other real property held by an insurer shall not be valued in an amount in excess of fair value as determined by recent appraisal. If valuation is based on an appraisal more than three years old, the commissioner may at his discretion call for and require a new appraisal in order to determine fair value." In addition, *SSAP No. 40*, paragraph 12, of the NAIC's Accounting Practices and Procedures Manual, requires that: "For all properties held for sale, an appraisal shall be obtained at the time such property is classified as held for sale, and subsequently an appraisal shall be maintained that is no more than five years old as of the reporting date."

It is recommended that the Company maintain adequate insurance coverage on all its properties (other than land only) in order to protect its investment in real estate.

Cash, cash equivalents and short-term investments – Page 40

It is recommended that the Company report reconciled bank balances as of the examination date within *Schedule E – Part 1* of the Annual Statement.

It is recommended that the Company properly account for all of its deposits and checks and report the true balances of its accounts on the appropriate Annual Statement schedule in accordance with NAIC instructions thereto.

It is recommended that the Company comply with ALA. CODE § 27-37-1(1975), which states that only cash owned by and “in the possession of the insurer or in transit under its control, and including the true balance of any deposit in a solvent bank or trust company” can be allowed as an asset.

Contract loans - Page 39

It is recommended that the Company maintain a complete record of its policy loans in accordance with ALA. CODE § 27-27-29 (1975), which requires the Company to maintain “complete records of its assets, transactions and affairs...”

Uncollected premiums and agents’ balances in the course of collection – Page 40
Deferred premiums, agents’ balances and installments booked
but deferred and not yet due – Page 40

It is recommended that the Company retain its policy applications in accordance with ALA. CODE § 27-27-29(a) (1975) requires that “Every domestic insurer shall have, and maintain...complete records of its assets, transactions and affairs...”

The Company did not receive the premium histories for the Atlanta Life policies when the policies were assumed in 2001, and, therefore, does not know why there were premium discrepancies. **It is recommended** that the Company attempt to obtain complete documentation of its assumed business, and insure that all policy records are obtained on any future assumptions.

Federal and Foreign Income Taxes Recoverable – Page 41

It is recommended that the Company disclose within the Annual Statement’s *Notes to Financial Statements* that the Board of Directors approved the written tax allocation agreement in accordance with *SSAP No. 10*, paragraph 23, of the NAIC’s Accounting Practices and Procedures Manual.

Aggregate reserve for life contracts – Page 41

It is recommended that the opining actuary continue to investigate and obtain such information that would allow a separate, individually calculated substandard reserve to be recorded accurately.

It is recommended that the Company maintain complete and accurate records of its aggregate reserves for life contracts in accordance with ALA. CODE § 27-27-29(a) (1975), which states: "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

Aggregate reserve for accident and health contracts - Page 42

It is recommended that the Company maintain complete and accurate records of its aggregate reserves for accident and health contracts in accordance with ALA. CODE § 27-27-29(a) (1975), which states: "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

It is recommended that the Company prepare a gross premium valuation on the accident and health insurance business and submit the gross premium valuation to the Alabama Department of Insurance for review. The gross premium valuation should be prepared in accordance with the requirements of *SSAP No. 54*, paragraph 23 and Appendix A-010, of the NAIC's Accounting Practices and Procedures Manual.

Liability for deposit-type contracts – Page 44

It is recommended that the Company maintain complete and accurate records of its liability for deposit-type contracts in accordance with ALA. CODE § 27-27-29(a) (1975), which states: "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

Contract claims – Life – Page 44

It is recommended that the Company record a claims adjustment expense for life insurance claim liabilities each year in accordance with *SSAP No. 55*, of the NAIC's Accounting Practices and Procedures Manual, to include "[c]osts expected to be incurred (including legal and investigations) in connection with the adjustment and recording of life claims..."

Contract claims – Accident and health – Page 46

It is recommended that the Company record a claims adjustment expense for accident and health claim liabilities each year in accordance with *SSAP No. 55*, of the NAIC's Accounting Practices and Procedures Manual.

It is recommended that the Company maintain complete and accurate records in accordance with ALA. CODE § 27-27-29(a) (1975), which states: "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

It is recommended that the Company pay its accident and health claims "within 45 calendar days upon receipt of a clean written claim or 30 calendar days upon receipt of a clean electronic claim" in accordance with ALA. CODE § 27-1-17(a) (1975).

Commissions to agents due or accrued – Page 46

It is recommended that the Company include bonus amounts due and not yet paid to its employees in the *General expenses due or accrued* line item in accordance with the NAIC's Annual Statement Instructions.

It is again recommended that the Company comply with ALA. CODE § 27-27-29(a) (1975) and maintain a complete listing for policies of which commissions were due. This recommendation was also made in the previous examination report.

General expenses due or accrued - Page 47

It is recommended that the Company estimate its accrual for all unpaid general expenses at year-end in a manner that will not result in the reporting of understated amounts in future financial statements in accordance with the NAIC's Accounting Practices and Procedures Manual, *SSAP No. 5*, paragraphs 3-4. These expenses should be recorded in the general expense line item in accordance with the NAIC's Annual Statement Instructions.

Taxes, licenses and fees – Page 48

It is recommended that the Company complete *Schedule T* (Premiums and Annuity Considerations) and *Exhibit 1 – Part 1* (Premiums and Annuity Considerations for Life and A&H Contracts) in accordance with the NAIC's Annual Statement Instructions.

Contingent Liabilities and Pending Litigation – Page 49

It is recommended that the Company accrue for legal expenses and anticipated settlement amounts regarding its ongoing litigation in accordance with *SSAP No. 5*, paragraph 4, of the NAIC's Accounting Practices and Procedures Manual.

SUBSEQUENT EVENTS

Monthly Financial Statements

In January 2005, the ALDOI requested that the Company file monthly financial statements. The Company has complied with this request and continues to file its financial statements on a monthly basis.

Capital Contributions

During 2005, the Company made the following capital contributions to Mutual Saving Fire Insurance Company, its wholly-owned subsidiary:

<u>Date</u>	<u>Amount</u>
March 14, 2005	\$ 200,000
March 20, 2005	\$1,000,000
October 10, 2005	\$ 500,000
December 22, 2005	\$ 700,000

The Company's Senior Vice President of Accounting stated that the first two contributions were to increase capital and surplus levels, which had been reduced due to losses sustained in 2004 as the result of Hurricane Ivan. The third and fourth contributions were to increase capital and surplus levels which had been reduced due to losses sustained in 2005 as the result of Hurricanes Dennis and Katrina. All contributions were appropriately reported to the ALDOI in Form B filings.

Debt Refinancing

On December 19, 2005, the Company signed a *Fourth Amendatory Agreement* to the Loan Agreement between Colonial Bank, N.A., and Primesco, whereby the Primesco's debt was restructured into the following two loans:

- A. The first is a \$47 million loan set to mature in three years – December 16, 2008.

- B. This portion of the restructured loan is a \$23.3 million interest only loan. The terms call for a significant principal reduction of up to \$18 million after 18 months, with any amount remaining after the reduction due in three years – December 18, 2008.

The loan agreement was discussed previously under the ORGANIZATION AND HISTORY section of this examination report.

Option Agreement

In December 2005, the Company executed an option agreement for the possible sale of its home office and personal property in Decatur, Alabama. This option expires June 13, 2006.


CONCLUSION

Acknowledgement is hereby made of the courteous cooperation extended by all persons representing the Company during the course of the examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed to the extent appropriate in connection with the verification and evaluation of assets and the determination of liabilities.

In addition to the undersigned, Tisha Freeman, Theo Goodin, Evelyn Jones, Anne Pruett and Lori Wright, Examiners; and Harland A. Dyer, ASA, MAAA, FCA, Consulting Actuarial Examiner; all representing the Alabama Department of Insurance, participated in this examination of Mutual Savings Life Insurance Company.

Respectfully submitted,



Anne L. Ward, AFE
Examiner-in-Charge
State of Alabama
Department of Insurance

March 17, 2006

**EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES
USED IN AN EXAMINATION**

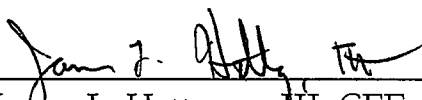
STATE OF ALABAMA

COUNTY OF MORGAN

James L. Hattaway, III, being duly sworn, states, as follows:

1. I have authority to represent the State of Alabama in the examination of Mutual Savings Life Insurance Company, Decatur, Alabama.
2. The Alabama Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have reviewed the examination workpapers and examination report, and the December 31, 2004 examination of Mutual Savings Life Insurance Company, Decatur, Alabama, was performed in a manner consistent with the standards and procedures required by the Alabama Department of Insurance, and the National Association of Insurance Commissioners.

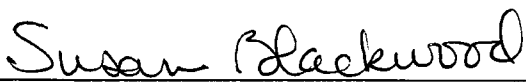
The affiant says nothing further.



James L. Hattaway, III, CFE
Insurance Examination Supervisor
State of Alabama, Department of Insurance

Subscribed and sworn before me by _____ James L. Hattaway, III
on this 17th day of March, 2006.

(SEAL)


_____. My Commission expires _____
(Notary Public) (Date)

SUSAN C. BLACKWOOD Notary Public, AL State at Large My Comm. Expires Dec. 06, 2009
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